

PAINT

THEMATIC REPORT



Paints Sector

Bright spots emerge; valuation comfort in leading players

We initiate coverage on the Indian paints industry. The sector has seen strong growth at 1.5-2x of GDP historically. It has gone through a tough couple of years due to RM cost volatility, price cuts impacting revenue growth, impact on discretionary demand in the country and concerns related to a slew of new entrants in the market. This has led to a contraction in valuation multiples compared to historical averages for most players. We believe the risk-reward has now started looking favourable for some players, based on:

1. Expected demand improvement due to declining inflation levels and improving outlook for rural demand;
2. Anniversarisation of price cuts, leading to stronger revenue growth expectations from H2FY25E;
3. Increased confidence of existing players that competition may not be disruptive for the industry;
4. Long-term growth drivers are intact in terms of strong GDP growth, improving per capita income and discretionary spending, and government spending on infra growth schemes such as 'Housing for all'.

We believe there is unlikely to be a large impact of competition on the larger players and companies with a diversified business. While there may be some impact in terms of pricing and ad spending, larger companies have growth levers of their own to withstand the competition. We initiate coverage on the top 5 listed paint companies with investment rationale as below:

Asian Paints— We like its strong distribution prowess that continues to grow, new product launch to target the unorganised market, the home décor foray and backward integration projects. It is currently trading at 53.5/46.8/42.5x its FY25/26/27E EPS, respectively.

Berger Paints— Berger Paints has consistently gained market share due to distribution expansion, which is expected to continue. It benefits from large size as well as diversification from industrial business. It is currently trading at 53.4/47.5/43.3x its FY25/26/27E EPS.

Kansai Nerolac Paints— We like Kansai Nerolac due to its portfolio diversification between decorative and industrial, focus on premiumisation and new segments and expanding presence in T1 towns and West and South India. It is currently trading at 30.1/25.8/22.9x its FY25/26/27E EPS, respectively.

Akzo Nobel India— While the company benefits from a superior product mix, it will see an increasing share of mass products, leading to margin pressure. There is also uncertainty due to the parent company's ongoing portfolio review for South Asia decorative businesses. It is currently trading at 40.2/37.6/35.7x based on FY25/26/27E EPS, respectively.

Indigo Paints— While Indigo Paints has been growing stronger than the industry and margin improvement due to scale-up, we think there are long-term concerns due to increased competition from larger players as the company has just a low single-digit market share. It is currently trading at 50.5/41.7/32.1x based on FY25/26/27E EPS, respectively.

Our top pick is Kansai Nerolac with a potential upside of 28.8%, followed by Asian Paints at 22.4% and Berger Paints at 17.7% upside.

Summary:

Bloomberg code: **APNT:IN**

Rating: **Buy**

Target price (Rs) **3,675**

CMP (Rs) **3,002**

Upside/ (Downside) **22.4**

Bloomberg code: **BRGR:IN**

Rating: **Buy**

Target price (Rs) **635**

CMP (Rs) **539**

Upside/ (Downside) **17.7**

Bloomberg code: **KNPL:IN**

Rating: **Buy**

Target price (Rs) **365**

CMP (Rs) **283**

Upside/ (Downside) **28.8**

Bloomberg code: **AKZO:IN**

Rating: **Hold**

Target price (Rs) **3,410**

CMP (Rs) **3,736**

Upside/ (Downside) **(8.7)**

Bloomberg code: **INDIGOPN:IN**

Rating: **Hold**

Target price (Rs) **1,710**

CMP (Rs) **1,643**

Upside/ (Downside) **4.1**

Source: NSE

Analyst

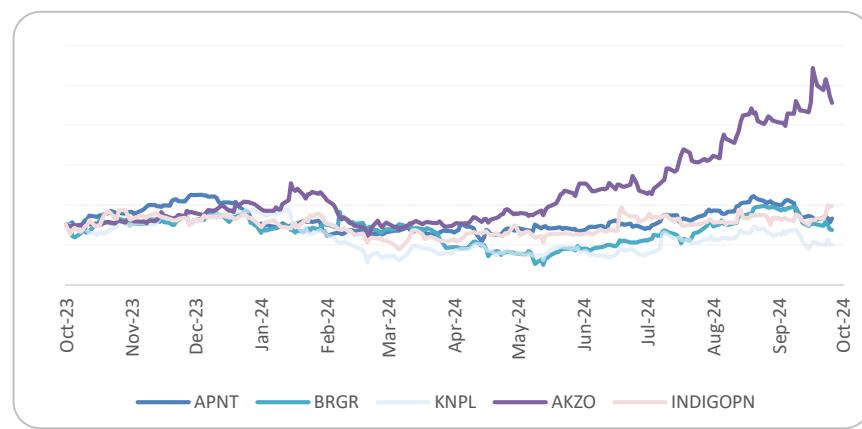
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| Name | Rating | M.Cap (Rs Bn) | CMP (Rs) | Target Price (Rs) | Upside (%) | P/E (x) | | | EPS (Rs) | | | ROCE (%) | | |
|--------------------------|-------------|---------------|--------------|-------------------|--------------|---------|-------|-------|----------|-------|-------|----------|-------|-------|
| | | | | | | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Asian Paints | Buy | 2,881 | 3,002 | 3,675 | 22.4 | 53.5 | 46.8 | 42.5 | 56.1 | 64.1 | 70.7 | 29.7 | 30.3 | 29.7 |
| Berger Paints (I) | Buy | 629 | 539 | 635 | 17.7 | 53.4 | 47.5 | 43.3 | 10.1 | 11.3 | 12.5 | 23.8 | 23.6 | 22.8 |
| Kansai Nerolac | Buy | 228 | 283 | 365 | 28.8 | 30.1 | 25.8 | 22.9 | 9.4 | 11.0 | 12.4 | 14.7 | 16.1 | 16.9 |
| Akzo Nobel India | Hold | 170 | 3,736 | 3,410 | (8.7) | 40.2 | 37.6 | 35.7 | 92.9 | 99.3 | 104.8 | 35.8 | 35.8 | 35.1 |
| Indigo Paints | Hold | 78 | 1,643 | 1,710 | 4.1 | 50.5 | 41.7 | 32.1 | 32.5 | 39.4 | 51.2 | 19.2 | 20.2 | 22.5 |

Relative Share Performance of Coverage Companies



Source: NSE, ACMIL Research

Valuation premium/ (discount) to historical averages

| Name | P/E | | | | |
|-------------------------|---------|-----------------------|---|-----------------------|---|
| | Current | Last 5 years' average | Premium/(discount) vs. 5 year average (%) | Last 2 years' average | Premium/(discount) vs. 2 year average (%) |
| Asian Paints | 47.4x | 61.6x | (23.0) | 54.9x | (13.6) |
| Berger Paints | 51.1x | 67.9x | (24.7) | 54.1x | (5.6) |
| Kansai Nerolac | 26.7x | 48.7x | (45.2) | 33.0x | (19.1) |
| Akzo Nobel India | 38.5x | 30.7x | 25.4 | 28.1x | 36.9 |
| Indigo Paints | 43.3x | NA | NA | 43.8x | (1.1) |

Source: NSE, ACMIL Research

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| Kansai Nerolac Paints | 65 |
| Akzo Nobel India | 84 |
| Indigo Paints | 99 |

Indian paints industry is split ~70:30 between decorative and industrial paints.

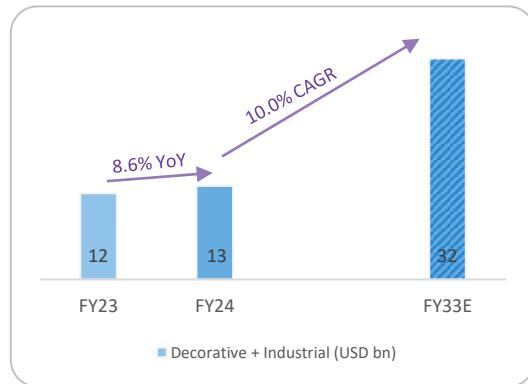
Both segments stand to gain from strong economic growth, improving demographic factors like per capita consumption, and infrastructure development.

Decorative paints segment is an oligopolistic market, with top 5 organised players commanding disproportionate share of the market. The growth potential in the segment has attracted new entrants.

Overview of the industry

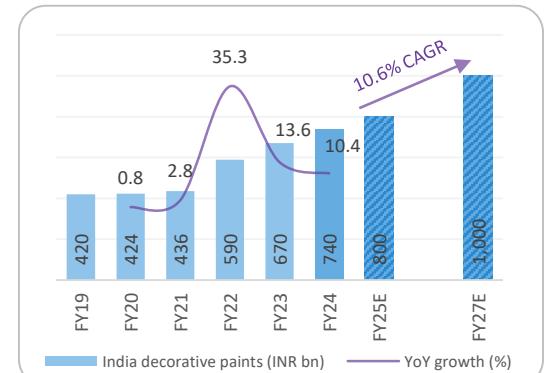
- The Indian paints and coatings industry, comprising decorative and industrial paints, was valued at ~USD 13,405 mn, i.e., ~INR 1,110 bn in FY24. The industry is expected to grow at a CAGR of ~10.0% to reach USD 31,706 mn by FY33E.
- Within this, the decorative paints segment was estimated to be ~Rs 740 bn in FY24 and is expected to see a CAGR of 10.6% till FY27E. This segment has a distribution of ~70:30 between organised and unorganised players. The organised segment is largely concentrated in the top 5 players, namely Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel and Indigo Paints. The unorganised segment on the other hand is quite fragmented among ~2,500 MSMEs.
- Growth in the decorative paints segment is expected to be driven by strong economic growth, urbanisation, increasing disposable incomes and per capita consumption. With a growing middle-class population, there is a shift of preference from unorganized to entry-level organized segments, which will benefit the organized paint players. Government schemes for housing, and urban and rural development like Pradhan Mantri Awas Yojana and the Smart Cities Mission will support demand.
- With just five players contributing to the bulk of the organized decorative paint sector, the market has been an oligopoly, with high entry barriers and pricing power in the hands of the market leader. However, with a slew of new entrants coming for a slice of the pie, the competitive landscape is changing.
- The industrial coatings business constitutes ~30% of the broader paints and coatings market. It is a broad segment catering to a variety of industries and various use cases. These include coatings for automobiles and parts, powder coatings for consumer durables, high-performance coatings for multiple industries, protective coatings for marine industries, etc. Companies that cater to this segment include PPG, Akzo Nobel, Kansai Nerolac, Nippon Paint, Jotun, Hempel, etc.
- Growth in industrial coatings will be supported by consumption growth in automobiles and consumer durables, the Government's infrastructure push, and a focus on Make in India leading to an uptick for industrial sectors.
- In the past, the paints and coatings industry has shown a high positive correlation with the GDP growth of the country and has historically grown at ~1.5-2 times India's GDP growth rate. While this correlation has seen some distortion in the last few years, owing to disruptions such as COVID-19 and high inflation, it is likely to continue to track the GDP growth in the long term. With India's GDP expected to grow from USD 3.5 tn in FY24 to USD 5/7 tn by CY2027E/CY30E, the government's continued focus on housing for all, and improving disposable incomes, the paints industry will benefit.

Exhibit 1: Total (decorative + industrial) paints industry growth



Source: Indigo Paints FY24 AR, ACMIL Research

Exhibit 2: Indian decorative paints industry growth



Source: Birla opus fillings, ACMIL Research

Industry structure in charts

- Decorative vs. industrial



The decorative paints segment is driven by demand in the real estate sector and demand for repainting. It consists of products such as emulsions, enamels, distempers, putty, primer, cement paint, waterproofing and wood coatings, used for exterior and interior painting.

Demand for industrial coatings is driven by growth in sectors such as automobiles, industrials, infrastructure, consumer durables, etc.

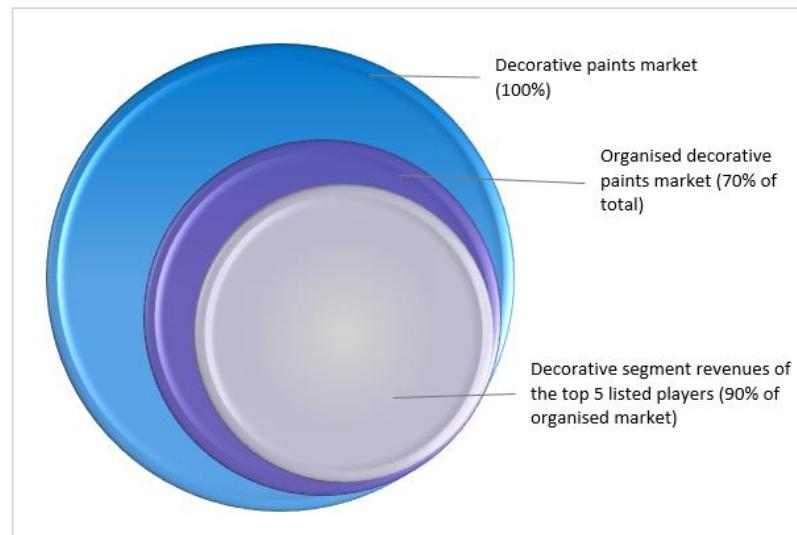
- Decorative paints: Organised vs unorganised



The organised segment comprises ~70.0% of the industry, which includes players having well-known brands and a pan-India presence. The top 5 players combined have a high concentration (~90.0%) within the organised decorative paints revenue pool, and thus enjoy pricing power.

The share of unorganised is about 30% and is highly scattered with about 2,500 units of small and medium-sized paint manufacturing plants. These smaller players are mainly regional and concentrated in tier 2-4 cities and rural areas. The unorganised sector caters to the price-sensitive entry-level market with lower-end products. This includes distempers, cement paints and lower-price/ quality emulsions. During and post-COVID-19, the unorganised sector was impacted, first by supply chain disruption, inflation in raw material prices, and a strong demand shift towards branded products. As the demand shifts from distempers/ cement paints to entry-level emulsions, consumers are also shifting more to branded players.

Exhibit 3: Segmentation of the decorative paints industry



Source: Company filings, news articles, ACMIL Research

Types of products in the market

Types of decorative paints

- **Emulsions:** These are water-based paints used for interiors as well as exteriors. They are made from water-dispersible binders, additives and colourants. They have aesthetic colour tones, and smooth surface finish and are washable, stain resistant, and fungal resistant.
- **Enamels:** These are oil/solvent-based paints made from alkyd binders, solvents, pigments and additives. They are used for multiple surfaces such as wood and metal and have a glossy finish. Enamels being solvent-based, release Volatile Organic Compounds (VOCs) which are harmful to the environment and have an odor.
- **Wood coatings:** They are solvent-based products used on wooden surfaces, offering different finishes like glossy, matte or silk matte.
- **Distemper:** These are water-based paints that come in the form of a thick paste. They are better than whitewash but lower in price and quality compared to emulsions.
- **Putty:** Putty comprises white cement, polymers and powder fillers. These are applied before painting to give a smooth finish to the surface. Cement companies like UltraTech and JK Cement also sell putty and have a higher market share than paint companies.
- **Primer:** Primer is an undercoat which helps with the adhesion of the paint/ topcoat.
- **Cement paints:** These are made from white cement, lime, minerals and pigments and are a type of economical exterior wall paint.

Types of industrial paints

- **Automotive coatings:** These include coatings for all types of vehicles.
- **General industrial coatings:** They are used for construction, heavy engineering & agricultural equipment
- **High-performance coatings:** These include coatings for the metal and construction industry including roofing, building construction, aluminium composite panels and domestic appliance segments.
- **Powder coatings:** They are used for coating metals, electrical equipment, consumer durables etc
- **Marine coatings:** These are used for assets both in and out of water, to protect against corrosion and fouling. They are applied to ships, vessels, and propellers as well as used for offshore oil rigs.
- **Packaging coatings:** These include coatings and inks for the metal packaging industry including food, caps & closures, general line and beer & beverage industry.

~90% of revenue share in organised paints segment is concentrated in the top 5 companies.

Top players in the organised segment

While the organised paints segment has multiple players, ~90% of revenue share is concentrated in the top 5 companies. Even within the top 5, the top 3 companies contribute to a disproportionate share, with the #1 player- Asian Paints having a share of 60%/64% in the consolidated/ decorative revenue, respectively. The 5th largest player contributes only 2.2% to the overall revenue pool of the top 5. Hence, it is fair to conclude that the other players are much smaller in size and the trends in the top 5 players are representative of the entire organised segment.

Exhibit 4: Relative revenue share within the top 5 players; disproportionate share of the market leader

| Company-wise revenue FY24 (Rs mn) | Consolidated revenue | Overall share within top 5 (%) | Decorative paints revenue | Decorative share within top 5 (%) |
|-----------------------------------|----------------------|--------------------------------|---------------------------|-----------------------------------|
| Asian Paints | 3,54,947 | 59.4 | 2,99,569 | 64.0 |
| Berger Paints | 1,11,989 | 18.7 | 88,802 | 19.0 |
| Kansai Nerolac | 78,014 | 13.1 | 42,908 | 9.2 |
| Akzo Nobel India | 39,616 | 6.6 | 23,770 | 5.1 |
| Indigo Paints | 13,061 | 2.2 | 13,061 | 2.8 |

Source: Company, ACMIL Research

The top 5 players have varied revenue mix when it comes to split between decorative and industrial paints.

Indigo Paints is the only player who has products catering solely to the decorative paints segment. This is followed by the top 2 players- Asian Paints and Berger Paints India, which have ~80-85% of their respective revenue coming from the decorative segments.

Kansai Nerolac and Akzo Nobel India have a greater focus on the industrial coatings segment relative to the other three players. While decorative paints still form the majority of their revenues, 45% and 40% of their respective revenues are generated from the sale of industrial coatings.

Exhibit 5: Revenue mix as reported by top 5 players

| Revenue mix (FY24) (Rs mn) | Asian Paints | Berger Paints (I) | Kansai Nerolac | Akzo Nobel India | Indigo Paints |
|----------------------------|--------------|-------------------|----------------|------------------|---------------|
| Decorative paints | 2,99,569 | 88,802 | 42,908 | 23,770 | 13,061 |
| Industrial coatings | 11,155 | 22,200 | 35,106 | 15,846 | - |
| Others | 44,223 | - | - | - | - |
| Revenue mix (FY24) (%) | | | | | |
| Decorative paints | 84.4 | 79.3 | 55.0 | 60.0 | 100.0 |
| Industrial coatings | 3.1 | 19.8 | 45.0 | 40.0 | - |
| Others | 12.5 | - | - | - | - |

Source: Company, ACMIL Research

As per company-wise segment reporting/ management commentary

Decorative paints includes B2C business, projects business, waterproofing, construction chemicals, wood finishes
 Others includes Home décor and international business, which Asian Paints reports separately

Growth drivers for the industry

Positive correlation to GDP growth

The growth in the paint industry is generally 1.5x to 2x of the GDP growth. During FY14 to FY19, the industry grew by a CAGR of ~11%, almost 2x the growth rate of India's GDP. With strong growth expected to continue for India's economy in the coming years, the paint industry will continue to see growth.

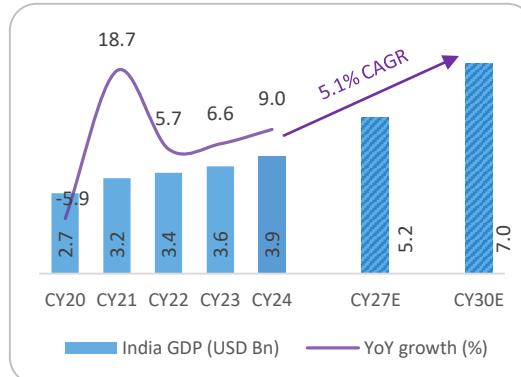
Growth in per capita income

From 2014–15 to 2022–23, India's per capita Net National Income (NNI) increased by 35.1%, and by 2030, it is predicted to reach USD 4,000. The quality of life and general well-being of the populace are frequently linked to NNI per capita; which, when higher, guarantees greater aggregate consumption, impacting the paints business positively.

Increase in per capita paint consumption

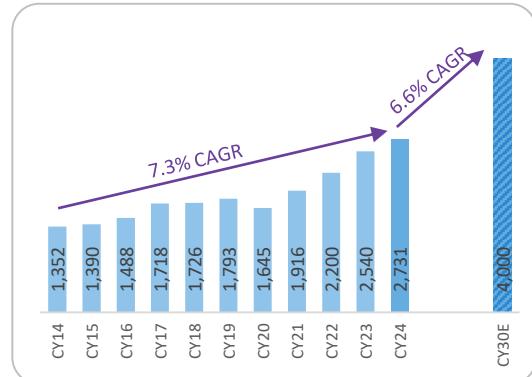
India's per capita paint consumption increased by a CAGR of 6.8% from 2.6 kg in FY12 to 4.1 kg in FY19. This was still much lower than the global average consumption of ~14 kg to 15 kg per capita. This presents a significant headroom for improving market penetration in India. The increasing GDP per capita and a growing middle-class population are expected to raise the per capita paint consumption. Increasing urbanisation coupled with a rise in disposable income is leading to an increased spend on decorative paints.

Exhibit 6: India's GDP growth



Source: IMF, Ministry of Finance

Exhibit 7: NNI per capita of India (in USD)



Source: World bank

Policy focus on infrastructure development

Infrastructure development has direct benefits for growth of the industrial coatings segment and projects segment within decorative paints. Focus on improving connectivity is leading to the construction of highways, railways, waterways, bridges, tunnels, airports, etc. which leads to demand for functional coatings, paints, waterproofing and construction chemicals.

Growth in the real estate sector

The present size of the real estate sector in India is around USD 520 bn and is likely to grow to USD 1.0 tn by 2030 and USD 5.8 tn by 2047. These estimates according to the India Brand Equity Foundation (IBEF) indicate a CAGR of 11.5% for the next 6 years and 10.9% thereafter till CY47E.

Pradhan Mantri Awas Yojana

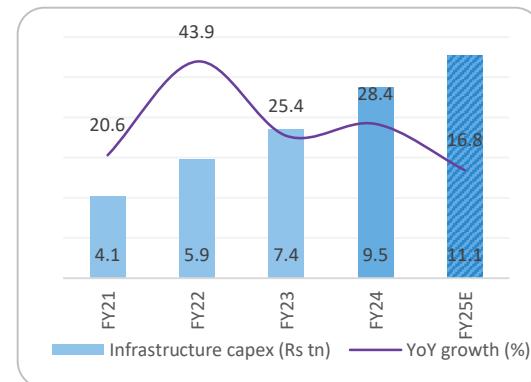
In 2016, Pradhan Mantri Awas Yojana (PMAY-G) was launched with the goal of providing 'Housing for All'. From FY19–FY23, Rs 2,393,340 mn was spent and 17.5 mn homes were built. The proposed outlay for FY25–FY29E is Rs 3,061,370 mn, representing a 28% increase from the preceding period. The aggregate number of houses to be developed is anticipated to be 20 mn.

Shift from unorganised to organised

The share of unorganized is about 30%, and is highly scattered with about 2,500 units of small and medium-sized paint manufacturing plants. These smaller players are mainly regional and concentrated in tier 2-4 cities and rural areas. Due to urbanisation, improving per capita income, growing awareness and changing preferences, the mass consumers are also shifting from unorganised paints to the lower-end paints offered by organized players.

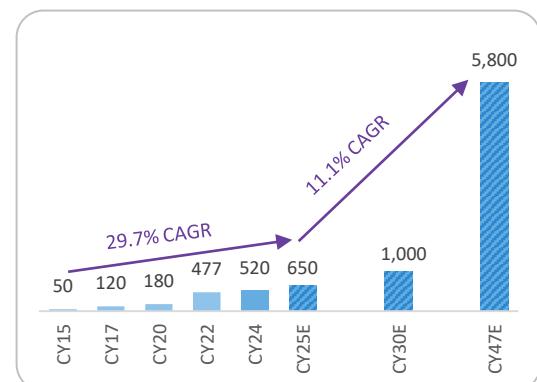
Growth drivers for the industry

Exhibit 8: Infrastructure capex has continued to grow



Source: Government of India

Exhibit 9: Indian real estate market (USD Bn)



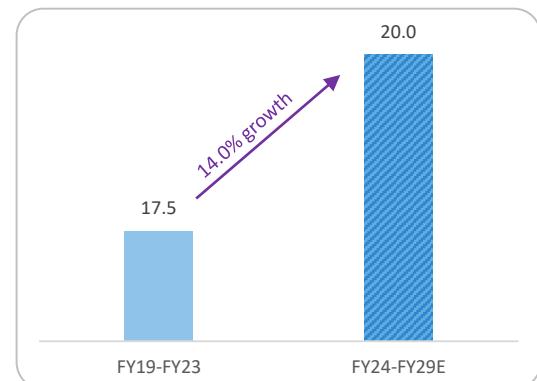
Source: Statista

Exhibit 10: Total outlay for PMAY-G (in mn)



Source: Ministry of Rural Development press release

Exhibit 11: Total number of houses completed (in mn)



Source: Ministry of Rural Development press release

Macro-economic and demographic factors such as growing GDP, per capita income, rising middle class to aid growth for the paints sector.

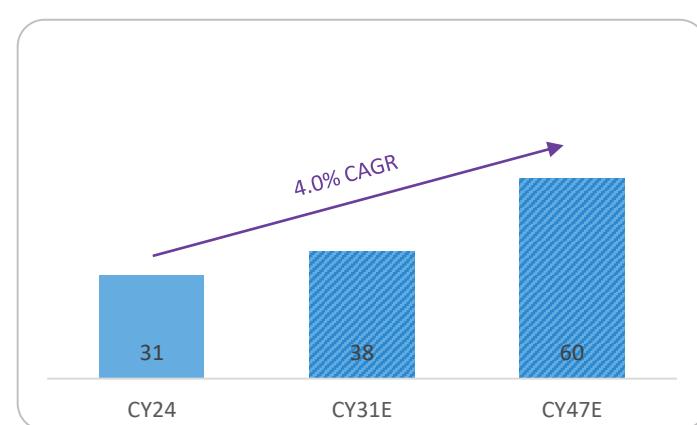
Rising middle class

India's middle class is a rapidly increasing section of the population, with an expected 60% share by 2047, up from 31% presently. It is the economy's principal driver, with a diverse consumption routine encompassing healthcare, education, essential household goods, discretionary products, and entertainment. Improving disposable income leads to an increase in urbanization, expansion of rural markets, and a wider acceptance of upscale items and innovation.

Higher demand for functional paints

In the last few years, there has been a shift of preference toward odor free, and dust and water resistant paints. Demand for these additional features in paints are leading to premiumisation.

Exhibit 12: Middle class' share (%) in population



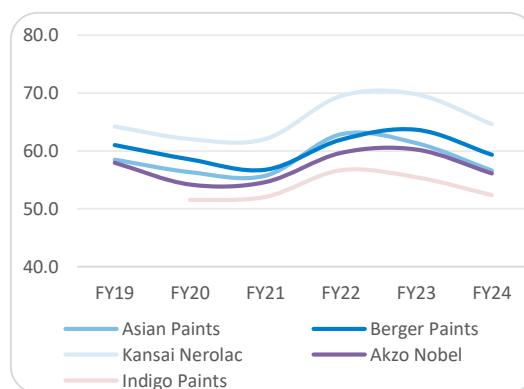
Source: People Research on India's Consumer Economy

Key cost drivers for the industry

1. Raw material cost

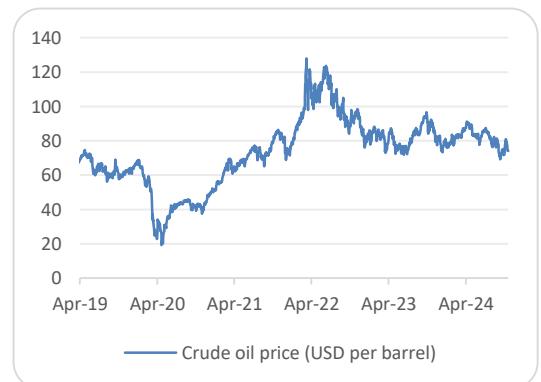
- Raw material costs are the major component of total costs (~60.0%) for paint companies.
- Raw materials include pigments, minerals, extenders, solvents, additives, resins, oils, monomers, etc.
- Pigments impart colour to paints. These are generally in powder form and made from finely ground minerals or chemicals. The single-most important material used is Titanium dioxide (TiO₂). It is a white pigment and forms 20.0% to 25.0% of the total inputs. It is largely imported from China.
- Solvents in paints increase smoothness and consistent levelling in paints, meaning it is easier to apply the paint or coating to a particular surface. The choice of solvent depends on the chemical properties of the other ingredients, including pigment solubility, solvent resistance and potential skin irritation. Solvents are used to dissolve the other ingredients in the paint and control the consistency of the finished product. Common solvents used in paint include water, alcohol, and mineral spirits.
- Resins/ Binders: Binders help paints adhere to the surface on which it is applied. It makes the coating durable. Common binders used in paint include latex, acrylics, and alkyds.
- Additives are used to change certain attributes of the paint, such as to improve its performance.
- For water-based paints and putty, raw materials also include white cement, lime, dolomite, calcite and talcum.
- Of the total raw materials, ~55% are derivatives of crude oil, and contribute ~30.0%-35.0% to the raw material costs. This makes paint companies sensitive to fluctuations in crude pricing. As most of India's crude demand is fulfilled through exports, fluctuations in FX rates also have an impact on purchasing prices.
- As companies hold inventories of raw materials, fluctuations in crude prices have an impact on company financials with a lag of ~1-2 quarters.
- Paint companies generally tend to pass on changes in costs to the customers in the normal course of business. However, in periods of high volatility, like seen in FY22-FY23, there may be some delay in taking pricing actions due to demand conditions. In FY22, the industry took price hikes of ~20-25% to partly mitigate the sharp increase in RM prices from the COVID-19 lows. As these hikes were not enough to cover the entire RM cost uptick, gross profit margins took a hit in FY22.
- Conversely, when RM costs started falling from H2FY23, the industry refrained from taking any price cuts for the next 4 quarters, to restore profitability levels.
- The industry took minor price cuts in H2FY24, only to be followed by a price hike of ~1.0% in Q1FY25 in response to an increase in crude prices.

Exhibit 13: RM costs are around 60% of revenue



Source: Company fillings, ACMIL Research

Exhibit 14: Crude oil price movement has direct impact on RM costs



Source: Bloomberg

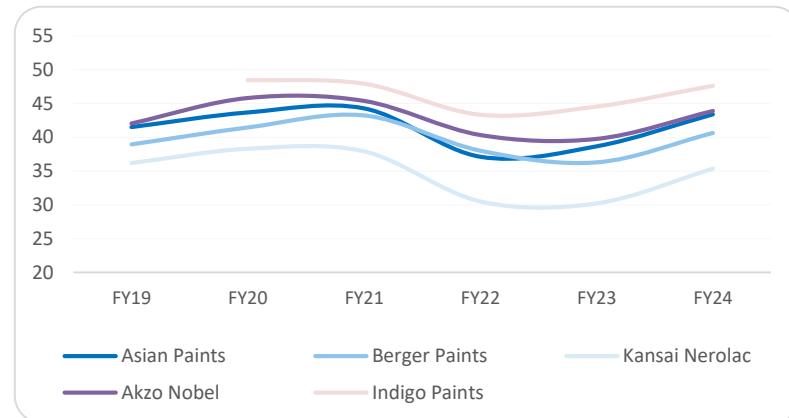
- Pricing actions in the industry are led by the market leader and challenger brands tend to follow. In this regard, Asian Paints holds the key moat of pricing power.

Exhibit 15: Price actions by Asian Paints with a lag to RM cost changes

| QoQ change (%) | Q1 FY22 | Q2 FY22 | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 | Q2 FY25 |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| RM cost | 15.0 | 6.0 | 4.0 | 1.0 | 6.0 | 2.0 | (7.0) | (4.0) | (2.0) | (4.0) | (0.2) | (1.8) | 1.8 | 0.0 |
| Price action | 3.0 | 4.0 | 15.0 | 0.0 | 2.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.0) | (2.0) | 0.0 | 1.0 |

Source: Asian Paints, ACMIL Research

Exhibit 16: Gross profit margins (%) move in tandem for all players

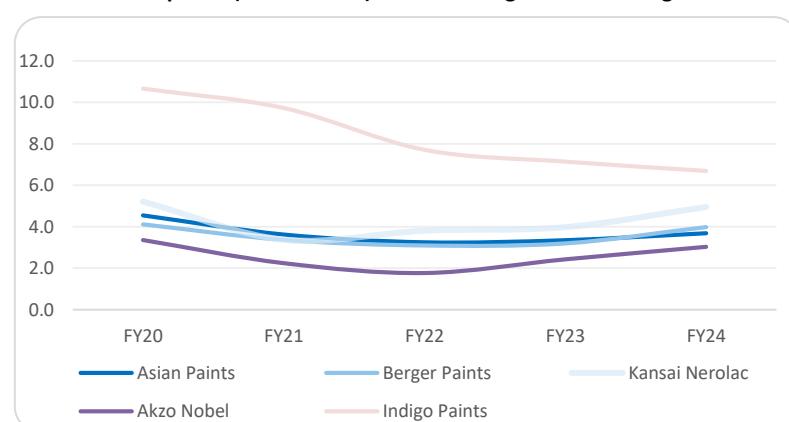


Source: Company fillings, ACMIL Research

2. Advertising & promotional spends

- The success of a company in the paints sector is primarily dependent on strength in two factors- brand and distribution.
- Brand building takes a long time and paint companies have to constantly invest towards maintaining or improving the strength of their brand.
- Challenger brands tend to invest a higher amount as % of their sales towards advertising and promotions, to improve their visibility, and in turn, try to gain market share.
- With increased competitive intensity in the industry in the last couple of years, from new and existing players alike, there is an uptick in ad spending for most players. Indigo paints is the only exception, as they are seeing some moderation in ad spending as % of sales due to improving scale of business.

Exhibit 17: Ad spends (as % of sales) tend to be higher for challenger brands



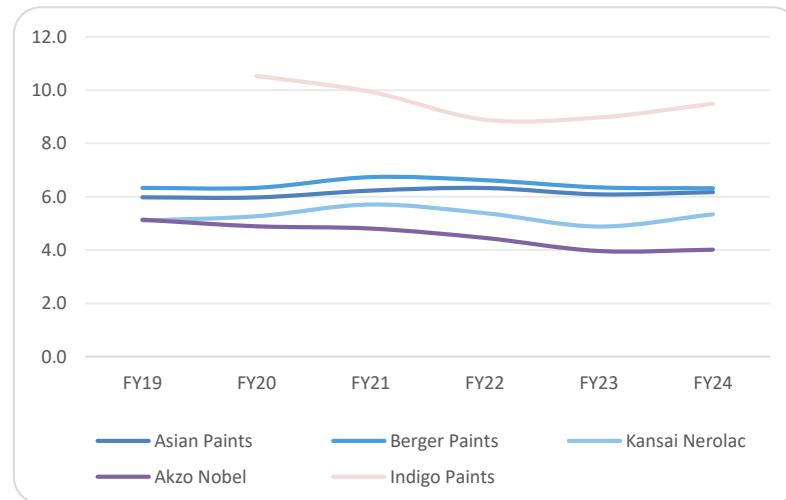
Source: Company fillings, ACMIL Research

3. Freight costs

- Freight costs are one of the key cost drivers for paint companies, as they have to transport high volumes of paint across the country to reach their distributors and dealers.
- Freight costs are also dependent on crude oil movement, adding to the industry's sensitivity to crude prices.
- Akzo Nobel India has the lowest freight costs as % of its sales due to a higher share of premium products and industrial paints. While the revenue generated from such products is higher, freight cost on a per unit basis remains the same whether it is an economy or luxury paint.
- Indigo Paints has high freight costs on account of its manufacturing facilities being away from key markets. As the company has facilities in only 3 locations- Jodhpur (Rajasthan), Pudukkottai (Tamil Nadu) and Kochi (Kerala), it has a higher bill for outward freight costs. This is expected to reduce in the future due to capacity augmentation at current plants and portfolio premiumisation.
- Asian Paints and Berger Paints have comparable freight costs. Kansai Nerolac has slightly lower costs due to the high share of industrial paints in the revenue mix.

Freight costs are also dependent on crude oil movement, adding to the industry's sensitivity to crude prices.

Exhibit 18: Freight costs as % of consolidated revenue differ based on product mix and location of manufacturing facilities



Source: Company, ACMIL Research

Key themes in the industry

Shift to water-based paints/ emulsions: helps to shield from fluctuating crude prices

Emulsions are water-based paints, and hence less toxic than most oil-based paints. The industry has seen a shift from lower-priced distempers to economy emulsions, and further to higher-priced emulsions. The transition was on account of consumers looking for more durability and quality finishes.

Fluctuations in crude prices impact the pricing decisions of paint companies as it is the key raw material in oil-based paints. As there is a shift away from these and toward water-based paints, it will lend relative stability to the raw material costs.

Demand for putty

Earlier, it was common in rural areas to apply paint directly on cemented or plastered walls without applying putty or primer. Consumers are now becoming aware of the benefits of applying putty before paint. Consumer awareness has led to higher demand for putty, as it gives a better result if applied on the walls before painting. In July 2018, the GST on paints, varnishes and putty was reduced from 28.0% to 18.0%, leading to higher growth in these segments. As a result, while premium ranges continue to grow, the economy range (including emulsion, distemper and putty) has been widening at a higher rate, due to increased awareness among rural households. This has led to paint companies entering aggressively in the putty segment, taking away share from leading cement companies.

More focus on waterproofing, construction chemicals

Earlier, people did not give too much importance to waterproofing. The application process was also done by a different set of contractors. However, increasingly paints and waterproofing segments are being sold through the same distribution channels and applied by the same set of contractors. Growth in the waterproofing segment has led to all paint companies entry in the segment in the last decade.

Need vs. want

Earlier the major factor for re-painting the house was the life of the paint i.e., repainting was done only when paint withered. However, this trend has been changing gradually with some consumers giving more importance to aesthetics, change in looks and appearance of their premises at regular intervals even while the condition of the existing paint is good.

Areas of competitiveness for paint companies

Demand for any particular brand of paints is primarily a function of 2 aspects. These are **brand strength** and **distribution reach**.

Brand strength

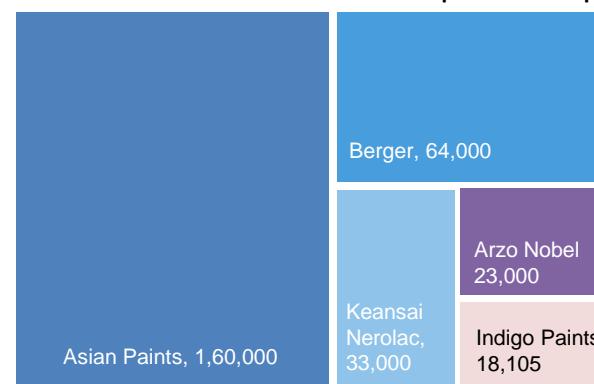
- Brand strength is built over time by engaging in advertising and promotional activities, and engaging with influencer communities which include architects, contractors and painters. Each company has programs to interact with such enablers of end-consumer decision-making.
- Companies like Asian Paints and Berger Paints, which have been in the market for several decades, have fortified their brand recall by continued investments in ad spending.
- As a result, new entrants entering the market have to compete by putting out a much higher share of ad spending if they want to create a position for themselves in the market.
- Consumer perceptions that have been built over decades are unlikely to change overnight. Painting a house is a once in ~4-5 years event, hence the decision about which paint brand to use is based on one's own prior experience or the experience of one's near and dear ones. Any new brand in the market is unlikely to create such a strong brand position in the initial years and may take a few painting cycles to establish itself as a serious contender.

Distribution and brand strength are the two key determining factors for market share in paints industry.

Distribution reach

- Along with investing in building the brand, there have to be adequate investments in building a distribution network, to ensure the availability of products.
- The majority of paint dealers generally sell multiple brands of paint from the same store. As a result, there is a limitation on the store space available for each company. This makes it difficult for smaller players/new entrants to make inroads in the industry, as dealers would prefer to stock more products of larger companies, which generally see higher inventory churn on account of brand recall.
- To reduce the number of SKUs that need to be kept in inventory, paint companies provide tinting machines to dealers at a nominal cost. Tinting machines help to make specific shades as per demand, based on base paint and combinations of different colour pastes. Installation of tinting machines helps to increase throughput per dealer by ~3x.
- While all companies would like to install tinting machines at most of their dealer outlets, store space becomes a constraint here as well. Most dealer stores would have enough space for a maximum of 2-3 tinting machines, which is another hindrance for smaller/newer players.
- To make their propositions attractive to dealers, smaller paint companies have to offer higher dealer margins. Even then, the dealer might still prefer the better inventory churn that comes with keeping stock of larger brands.
- Ultimately, which brand a dealer will keep at their stores will be determined by 3 things- 1) demand for the brand in the particular geography, 2) dealer margins, and 3) quality of dealer servicing by paint companies.
- Among the top 5 paint players, Asian Paints has an enviable distribution reach, which is larger than the other four players combined.

Exhibit 19: Asian Paints' retail distribution presence is unparalleled (retail touchpoints in FY24)

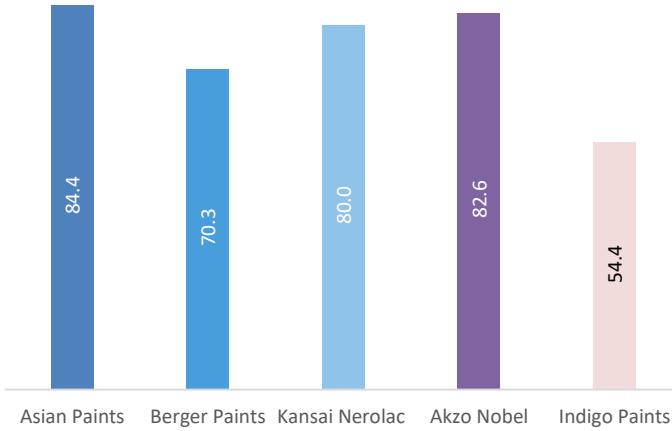


Source: Company fillings, ACMIL Research

Dealer throughput

- Top 4 companies have a high share of tinting machines in its retail network. Asian Paints tops the chart with 84.4% of their retail touchpoints having tinting machines.
- Indigo Paints has a much lower penetration of tinting machines in its dealer network, but has increased the same from 31% in FY19 to 54% in FY24.

Exhibit 20: Tinting machine to dealer ratio (%) (FY24)



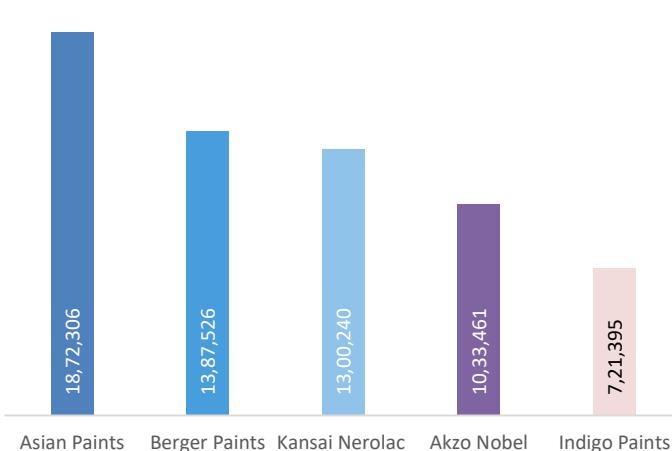
Dealer throughput is revenue generated per dealer for any company. The higher this value, the better it is for any company.

Source: Company filings, ACMIL Research

Note: Dealer count used is the total reach, direct+indirect as reported by all companies

- As tinting machines improve the sales efficiency by ~3x, higher tinting machine penetration drives higher revenue per dealer.
- Decorative revenue per dealer is the highest for Asian Paints and then reduces down the ranks to the lowest for Indigo Paints. This is a function of number of dealers, number of tinting machines, and the share of counter space that each company enjoys at dealerships, which is ultimately dependent on the brand strength. .

Exhibit 21: FY24 decorative revenue per dealer (Rs)



Source: Company filings, ACMIL Research

Manufacturing capacity

- Companies may have a mix of in-house manufacturing and outsourced manufacturing in order to meet demand.
- In-house paint capacity is largest and more wide-spread across the country for Asian Paints. This helps reduce freight costs for the company due to proximity to most markets.
- Indigo paints has only 3 facilities, located closer to raw material sources. While this helps in lower procurement costs, it also leads to higher outward freight costs.

Exhibit 22: Manufacturing capabilities for top 5 players

| Manufacturing capabilities (FY24) | Asian Paints | Berger Paints | Kansai Nerolac | Akzo Nobel India | Indigo Paints |
|---|--------------|---------------|----------------|------------------|---------------|
| In-house paint manufacturing facilities worldwide | 27* | 29 | 8 | 5 | 3 |
| India | 10 | 14 | 8 | | |
| Global | 17 | 15 | | | |
| Installed capacity | | | | | |
| KLPA/ MTPA | 18,50,000# | 12,72,705 | 6,10,600 | 3,00,000 | 2,98,000 |

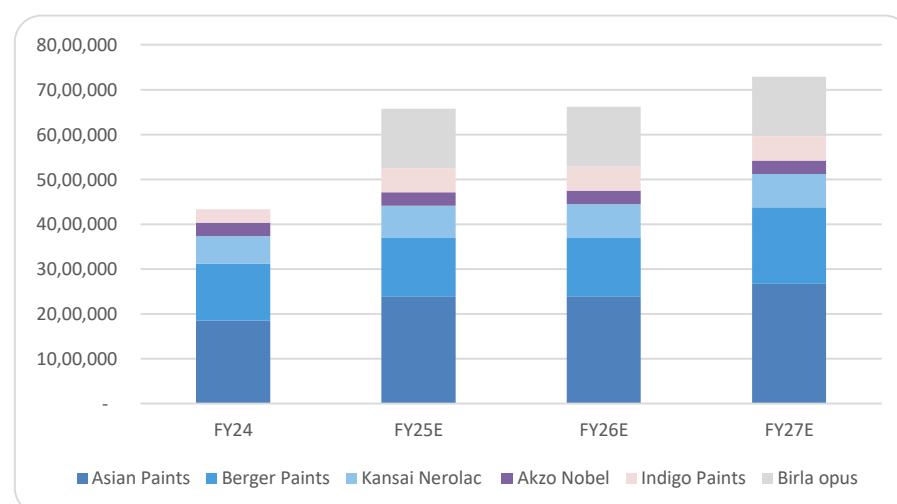
Source: Company fillings, ACMIL Research

**Includes only decorative + industrial paints facilities. Does not include manufacturing facilities for the kitchen and bath businesses and a chemical plant in Tamil Nadu*

#Includes only decorative paints

- Seeing the growth potential in the country, all five players are in the middle of aggressive capacity expansion plants, which will be commissioned over the next 3 years. Additionally, Grasim through its Birla Opus brand of paints, has plans to put up manufacturing facilities aiming to have the 2nd largest capacity in the industry at the time of announcement.
- In FY25E, Birla Opus is adding ~31% capacity to the top 5 players' combined capacity in FY24. The top 5 players are adding capacity of ~38% between FY24-FY27E.

Exhibit 23: Industry capacity (in KLPA) growing significantly over 3 years



Source: Company fillings, ACMIL Research

Brands and pricing per litre

Exhibit 24: Comparison of per litre price range across luxury/ premium/ economy segments

Interior paints

| | Luxury | Premium | Economy |
|----------------|---|--|---|
| Asian Paints |  <p>Royale ₹367-₹1,011</p> |  <p>Apcolite ₹469-₹499</p> |  <p>Tractor ₹79-₹262</p> |
| Berger Paints |  <p>Silk ₹671-₹1,051</p> |  <p>Easy Clean Fresh ₹496-₹600</p> |  <p>Bison ₹159-₹250</p> |
| Kansai Nerolac |  <p>Impressions ₹678-₹983</p> |  <p>Pearls ₹314-₹528</p> |  <p>Beauty Starting from ₹163</p> |
| Akzo Nobel |  <p>Ambiance ₹849-₹2,576</p> |  <p>Velvet Touch ₹729-₹1,526</p> | |
| Indigo Paints |  <p>Platinum ₹406-₹734</p> |  <p>Gold ₹246-₹471</p> |  <p>Silver ₹222-₹271</p> |
| | | |  <p>Bronze ₹181</p> |

Source: industrybuying.com, asianpaints.com

Exhibit 25: Comparison of per litre price range across luxury/ premium/ economy segments

Exterior paints

| | Luxury | Premium | Economy |
|----------------|---|--|--|
| Asian Paints |  <p>Ultima ₹636-₹922</p> |  <p>Apex ₹426-₹692</p> |  <p>Ace ₹197- ₹317</p> |
| Berger Paints |  <p>Weathercoat Long life ₹591-₹899</p> |  <p>Weathercoat ₹422-₹509</p> |  <p>Wallmasta ₹211-₹292</p> |
| Kansai Nerolac |  <p>Excel Upto ₹681</p> |  <p>Excel Starting from ₹406</p> |  <p>Suraksha Starting from ₹164</p> |
| Akzo Nobel |  <p>Weathershield ₹469-₹849</p> | |  <p>Promise ₹179-₹299</p> |
| Indigo Paints |  <p>Platinum ₹669-₹975</p> |  <p>Gold ₹248-₹295</p> | |

Source: industrybuying.com, asianpaints.com

Entry of new players in the recent times

1. JSW Paints

How it started:

- JSW group announced its entry into the paints business in May 2019 as it complemented its offerings in steel & cement in home building and care segments.
- It offers both decorative (water-based only) as well as industrial coatings. It started with a coil coatings facility at Vasind, Maharashtra with a capacity of 25,000 KLPA and water-based decorative paints capacity at Vijayanagar in Karnataka of 1,00,000 KLPA.
- At launch, it started a campaign of 'Any Colour at One Price' for its decorative paints.
- It started building its presence from Karnataka and planned to be a pan-India player in three years, i.e. by the end of FY22.
- It aimed to be among the top 3 paint brands in India by 2025 with a market share of 10%.

Progress:

- Crossed revenue of Rs 10,000 mn in FY22 (i.e. 10% higher than Indigo Paints' FY22 revenue) and Rs 20,000 mn in FY24 (i.e. 53% higher than Indigo Paints' FY24 revenue, but 50% lower than Akzo Nobel India's revenue). The company is targeting revenue of Rs 50,000 mn in FY26E, a CAGR of 58%.
- The company also reported operating profits in FY24, with an EBITDA margin of 3%, within 5 years of launch.
- The combined capacity of industrial and decorative paints increased from 1,25,000 KLPA to 1,75,000 KLPA.
- Total investments in the first 5 years of operations were Rs 8,000-9,000 mn, with similar investments expected in the next two to three years to increase capacity by 50%.
- The coil coatings are supplied to JSW Steel Coated Products Limited (JSWSCPL), which manufactures downstream steel products including colour-coated coils/sheets. Going ahead, JSWSCPL's entire coatings requirement is planned to be supplied by JSW Paints.
- The company said it has achieved a market scale and coverage of greater than 60% in paint-selling towns and increased its retailer network by adding more than 2,000 retailers every year.

2. JK Cement:

- In 2022, JK Cement unveiled its debut in the paints sector by acquiring a 60% share in Rajasthan-based Acro Paints for Rs 1,530 mn. By the end of January 2024, the remaining 40% had been purchased.
- The capacity of Acro Paints' two manufacturing facilities has been expanded to 60,000 KL for decorative and textured paints and 6,700 KL for construction chemicals. Rs 4,000 mn of the expected Rs 6,000 mn total investment in this company has already been spent.
- The management anticipates a top line of about Rs 2,500–3,000 mn for FY25E, with marginal losses from this segment due to marketing expenditures and limited scale in the initial phase. It recorded Rs 1,370 mn in standalone revenues in FY24. The product line consists of wall putty, wood finishes, textures, primers, enamels, emulsions for the interior and exterior, and construction chemicals.

3. Pidilite industries:

- With its brand, Haisha Paints, the leader in the Indian adhesives market made its foray into the decorative paints industry.
- Due to the intersection of distribution channels between paints and adhesives, Pidilite wanted to fill the gaps in its portfolio. The launch is intended to be limited, gradual, and measured rather than large-scale.
- In addition to specialist emulsions like floor coat and ceiling emulsions, Haisha Paints provides a variety of interior emulsions, including luxury, select, and classic varieties. The cost ranges between Rs 167 to Rs 520 per litre.

4. Birla Opus:

- Grasim forayed into the business in January 2021, with an investment outlay of Rs 1,00,000 mn to set up six manufacturing plants aggregating to a capacity of 13,32,000 KLPA.
- Three facilities with a total capacity of 6,30,000 KLPA were commissioned in February 2024. The other three will be completed in FY25E.
- Birla Opus targets to reach 50,000 dealers by the end of FY25E. For this, the company will benefit from the white cement and putty dealer network of Grasim's which is at 54,000. Of this, 70% also sell paints, giving direct access to 38,000 retail touchpoints.
- The revenue target is Rs 1,00,000 mn in the next three years, i.e. FY27E.
- The company is giving free tinting machines, greater dealer margins and incentives, and 10% free paint to woo dealers and customers.

Possible impact of increased competition

Margin Pressure due to increased capacity: The industry is likely to face excess capacity over FY24-27E as all major players are expanding and new players are also ramping up capacities. This may hurt margins for the industry as a whole.

Increased competition to retain dealers: Birla Opus is offering attractive terms to dealers, including higher in-bill discounts, no sales targets for 3 years, and an aggressive loyalty program. This could force incumbents to revise their dealer incentives and strategies, impacting their cost structures. However, managements of major paint companies have stated that most prime dealers are choosing to continue with their brands due to past performance and given the fact that their products have proven well in the market.

Pricing and Promotional Strategies: New players are offering promotional deals like an extra 10% quantity on water-based paints. However, Asian Paints has stated they don't expect a significant price impact due to Birla Opus's reduced prices. The industry also took a price hike of ~1% in July 2025 in response to higher raw material costs, indicating the pricing power of the market leader has not been impacted.

Long-term Market Dynamics: Despite short-term challenges, incumbents see adequate space and growth potential in the sector. The overall industry outlook remains positive due to low per capita paint consumption in India compared to global averages.

While new entrants pose challenges for incumbents in terms of competition and potential margin pressure, the overall industry outlook remains positive. Incumbents are adapting their strategies to focus on brand strength, customer loyalty, and product innovation to maintain their market positions in this evolving landscape.

Historically, global companies such as Sherwin-Williams entered the Indian market but were not able to achieve the desired scale. Sherwin Williams entered the market in 2007 by acquiring Nitco Paints. Within 5 years, it sold off its decorative paints business to Berger Paints India. The recent announcement by Akzo Nobel NV to review its decorative portfolio in South Asia (including India), looks like a step along similar lines.

Financial comparison

1. Revenue and growth

We expect a combined revenue of the top 5 players to grow by CAGR 9.8% over FY24-FY27E.

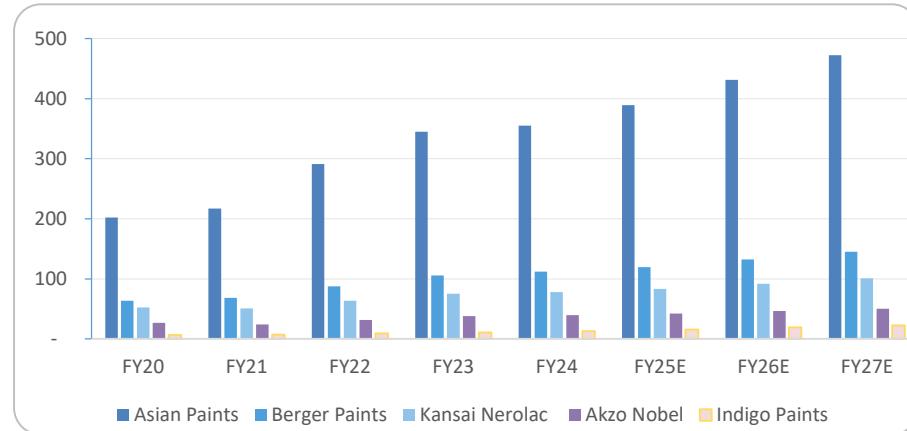
Growth will be led by Indigo Paints at a CAGR of 19.9%, owing to improving distribution and tinting machine penetration.

We expect Asian Paints to see a revenue CAGR of 10.0% over the period, driven by continued distribution expansion, new brand launch in the economy segment and strong growth in home décor.

We expect Berger Paints/ Kansai Nerolac/ Akzo Nobel revenue growth to be slightly lower than Asian Paints but hover in the range of 8.0%-9.0%, supported by both decorative and industrial segments.

Growth for all top 5 players will also be supported by growth in segments such as waterproofing, construction chemicals and projects business.

Exhibit 26: Revenue (Rs bn) expected to inch up for all 5 players, with growth led by Indigo Paints, followed by Asian Paints



Source: Company fillings, ACMIL Research

Exhibit 27: Revenue CAGR of top 5 players expected to remain strong at 9.7% over FY24-FY27E.

| Revenue CAGR (%) | Asian Paints | Berger Paints | Kansai Nerolac | Akzo Nobel India | Indigo Paints | Total of top 5 |
|------------------|--------------|---------------|----------------|------------------|---------------|----------------|
| FY20-FY24 | 15.1 | 15.2 | 10.4 | 10.5 | 20.2 | 14.2 |
| FY24 - FY27E | 10.0 | 9.0 | 8.9 | 8.2 | 19.9 | 9.8 |

Source: Company fillings, ACMIL Research

2. Gross margins

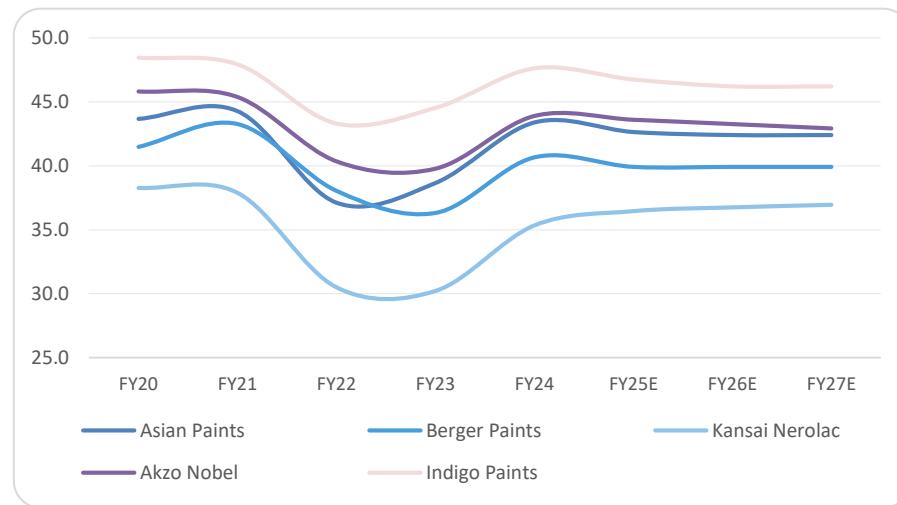
Except for Kansai Nerolac, we expect gross margins to decline for the other four companies over FY24-FY27E. This is likely due to some element of discounts/ rebates that these players may have to take in the face of increased competition.

Kansai Nerolac is expected to see improvement in gross margins of ~162 bps over FY24-FY27E due to its focus on premiumisation in both decorative and industrial segments.

We expect Asian Paints to see 99 bps cut in gross margins over the next three years, on account of its increased focus in the economy paints segment, in order to gain share from the unorganized mass market.

We expect Indigo Paints to see a larger cut in its gross margins of ~141 bps over the period. Indigo Paints' share in the top 5 players' is less than 3%. With the entry of larger new entrants in the market, Indigo Paints will have to be aggressive in terms of pricing to sustain or improve its market position. Moreover, Indigo Paints has some leeway as it currently has the industry-best gross margins and is on a path to reduce its ad spends and freight costs as % of sales. We believe some of these savings will be used to make the product pricing more attractive.

Akzo Nobel India and Berger Paints are expected to see gross margin contraction of 75 bps/ 97 bps, respectively due to increase in competitive intensity and growing share of economy segment for Akzo Nobel India.

Exhibit 28: Gross margin (%) expansion expected for Kansai Nerolac over FY24-FY27E, others expected to see decline

Source: Company fillings, ACMIL Research

3. EBITDA margins

Over FY24-FY27E, we expect to see EBITDA margin expansion for Kansai Nerolac (+117 bps) and Indigo Paints (+37 bps).

Kansai Nerolac's EBITDA margin improvement of 117 bps will be on account of the gross margin improvement owing to improvement in product mix.

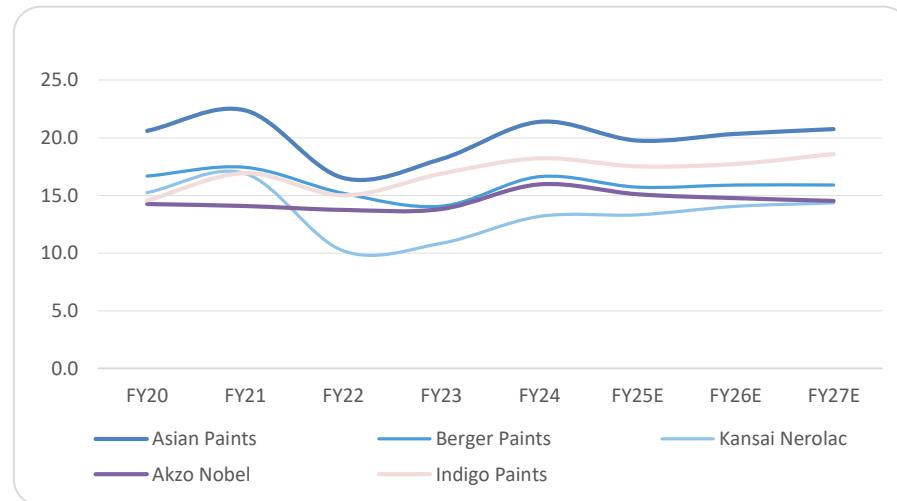
Indigo Paints is expected to benefit from lowering ad spending as % of sales, due to improving the scale of business. It is also expected to see some moderation in freight costs as % of sales, on account of capacity augmentation at existing locations. Thus, we expect EBITDA margins for the company to expand by 37 bps over FY24-FY27E, despite a decline in gross margins.

On the other hand, we expect EBITDA margin moderation for Asian Paints, Berger Paints and Akzo Nobel India.

Akzo Nobel India margins are likely to be affected (-144 bps over FY24-FY27E) due to an increase in the share of economy paints, of which the company has a very low share as of now.

We expect Asian Paints' EBITDA margins at 19.7% for FY25E, within its target band of 18.0%-20.0%. However, we expect improvement in the later years due to the scaling up of the home décor business, new capacities stabilising and capacities for backward integration coming on stream.

We expect Berger Paints' EBITDA margins to move from 15.7% in FY25E to 15.9% for the next two years, within its target band of 15.0%-17.0% margins.

Exhibit 29: We expect EBITDA margin expansion for Kansai Nerolac and Indigo Paints over FY24-FY27E

Source: Company fillings, ACMIL Research

4. PAT/ PAT growth/ PAT margin

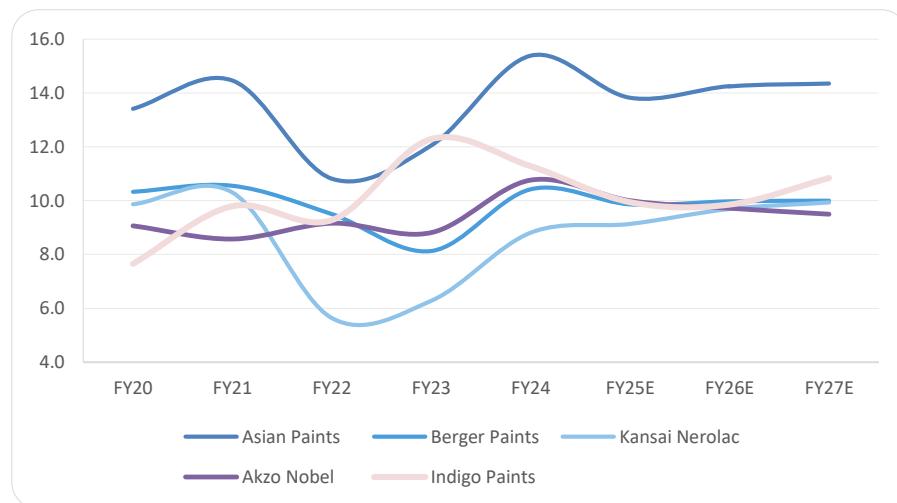
In terms of Adj. PAT CAGR over FY24-FY27E, Indigo Paints will lead with a growth of 18.4%, aided by its growth and margin improvement but partly offset by higher depreciation cost.

This will be followed by Kansai Nerolac, with a CAGR of 13.3% expected over the next 3 years.

We expect Asian Paints and Berger Paints to report a similar CAGR of 7.5%.

Akzo Nobel is likely to see the smallest growth of 3.8%, impacted by margin contraction.

Exhibit 30: Asian Paints leads the table in terms of Adj. Net Profit margin (%)



Source: Company fillings, ACMIL Research

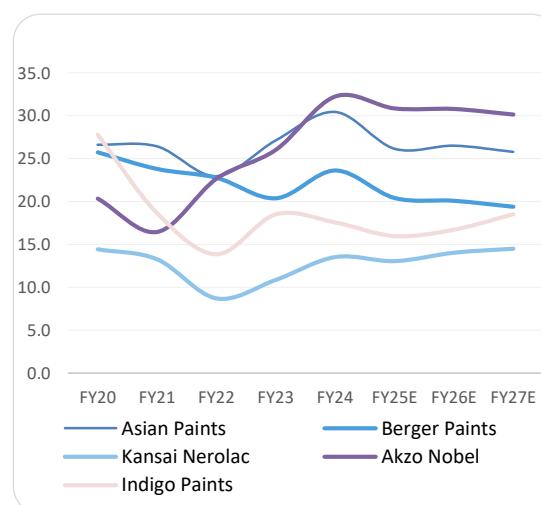
4. Return ratios

We expect ROE and ROCE for Asian Paints to contract by 466bps and 455bps, respectively over FY24-FY27E. This is on account of large capex plans commercialising and large cash build-up on the book. We expect a similar trend for Berger Paints.

We expect Akzo Nobel India to also see a moderation in ROE/ROCE by 211bps/204bps due to margin compression.

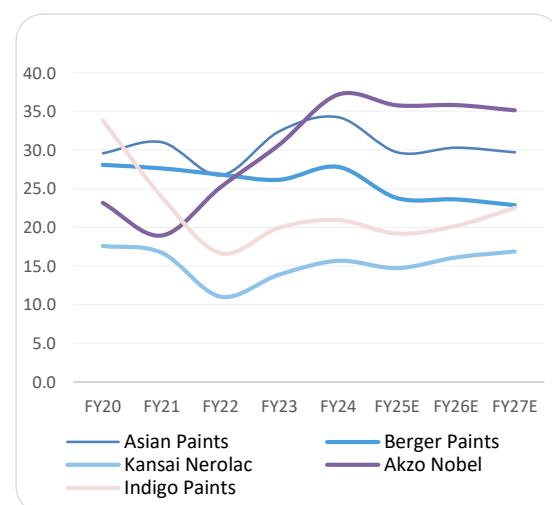
Kansai Nerolac is likely to see an expansion of 97 bps in ROE and 120 bps in ROCE over three years. Indigo Paints will also see an improvement of 96bps/ 158bps, respectively aided by margin uptick.

Exhibit 31: ROE (%)



Source: Company fillings, ACMIL Research

Exhibit 32: ROCE (%)



Source: Company fillings, ACMIL Research

Asian Paints Ltd. (APNT)

Holding on to its competitive strengths

We initiate coverage on Asian Paints with a "BUY" recommendation and a price target of Rs 3,675, valuing the company at 55x Sep-26E EPS of Rs 66.8. Asian Paints being the market leader in the domestic decorative paints industry, will be a key beneficiary of the demand tailwinds in the paints sector. The company is in a strong position to face higher competitive intensity and is working to fortify its position by ramping up capacity (including backward integration), entering new product segments (Neo Bharat latex, home décor) and strengthening its already best-in-class distribution reach.

Strong distribution muscle which is difficult to replicate

As of the end of FY24, Asian Paints' network of retail touchpoints was larger than all the other four listed players combined. In a business where distribution reach and brand equity are the two main factors that can influence market shares, Asian Paints' dominance in distribution is a strong moat for the company.

Expanding TAM by focusing on the bottom of the pyramid and home decor

Asian Paints introduced NeoBharat Latex in April 2024, creating a new category of paints to target the unorganised paint market. This paint competes with distempers in terms of pricing but promises better product performance in terms of superior finish, better coverage and better washability. The move aims to increase the company's addressable market, by targeting the unorganised segment, which forms ~25% of the industry. In the home décor segment, management targets to increase revenue contribution to 8%-10% by FY27E from 4% in FY24. The kitchen and bath businesses, which currently contribute ~60% to the home décor revenue, are likely to grow by 25%-30% CAGR, driven by additional capacity coming on stream.

Strong capex cycle underway

Capex plans will lead to an in-house decorative paints capacity expansion of 54% from FY23 to CY28E. Backward integration into manufacturing of VAM/VAE will contribute ~100-150 bps to margin enhancement.

Valuation & Outlook

As the inflation rate comes down and rural incomes improve, we should see an improvement in the decorative paint demand. With the launch of Neo Bharat Latex, Asian Paints is well positioned to catch demand improvement in the mass market. Asian Paints also looks well placed to hold on to its competitive strengths even as the intensity of competition is heightening.

We expect Revenue/ EBITDA/ Adj. PAT CAGR of 10.0%/ 8.9%/ 7.5%, respectively. In the last 5 years, APNT has seen a high average PE of ~62x, which has come down to ~55x in the last 2 years. The valuation multiples have reduced in the last couple of years on account of concerns of increasing competitive intensity, and volatile raw material prices leading to pressure on margins and a weaker demand environment. We believe, that as the concerns around competitive intensity settle and the growth for the industry improves, the sector will see valuation re-rating.

The stock is trading at 53.5x/46.8x/42.5x its FY25E/FY26E/FY27E Adj. EPS. We assign a "BUY" rating for Asian Paints with a price target of Rs 3,675 based on 55x Sep-26E EPS of Rs 66.8, an upside potential of 22.4%.

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue | 3,44,886 | 3,54,947 | 3,89,162 | 4,31,652 | 4,72,503 |
| Growth (%) | 18.5 | 2.9 | 9.6 | 10.9 | 9.5 |
| EBITDA | 62,598 | 75,850 | 76,844 | 87,761 | 98,070 |
| EBITDA (%) | 30.3 | 21.2 | 1.3 | 14.2 | 11.7 |
| Adj. PAT | 41,553 | 54,602 | 53,776 | 61,510 | 67,798 |
| Adj. EPS | 32.8 | 43.3 | 56.9 | 56.1 | 64.1 |
| Adj. EPS Growth (%) | 32.1 | 31.4 | (1.5) | 14.4 | 10.2 |
| ROE (%) | 27.1 | 30.4 | 26.1 | 26.5 | 25.8 |
| ROCE (%) | 32.4 | 34.2 | 29.7 | 30.3 | 29.7 |
| P/E (x) | 69.3 | 52.7 | 53.5 | 46.8 | 42.5 |

Source: Company, ACMIL Research

Buy

Target: ₹3,675

Key Data

| | |
|--------------------------|-------------|
| Bloomberg code: | ANPT IN |
| Target price (₹) | 3,675 |
| CMP (₹) | 3,002 |
| Upside/ (Downside) (%) | 22.4 |
| Rating: | Buy |
| Shares outstanding (mn): | 959 |
| Mcap (Rs bn): | 2,881 |
| 52-week H/L (Rs): | 3,423/2,670 |

Price Performance (%)

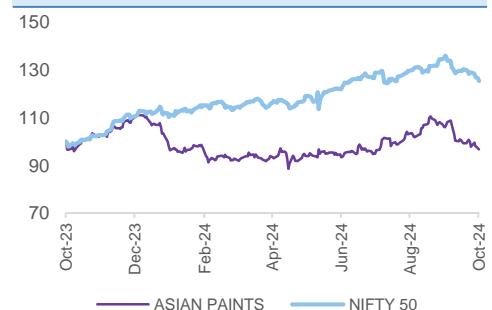
| | |
|-----------|-------|
| 1 month | (8.3) |
| 3 months | 1.8 |
| 12 months | 1.5 |

Shareholding Pattern (%)

| | Mar'24 | Jun'24 | Sep'24 |
|--------------|--------|--------|--------|
| Promoter | 52.6 | 52.6 | 52.6 |
| FII | 15.9 | 15.3 | 15.3 |
| DII | 11.7 | 12.4 | 13.2 |
| Public/other | 19.8 | 19.7 | 18.9 |
| Pledge | 3.7 | 3.8 | 4.1 |

Sources: BSE

Performance vs. Nifty 50



Sources: BSE

Analyst

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APNT is the 10th largest paints company globally, and the largest in India.

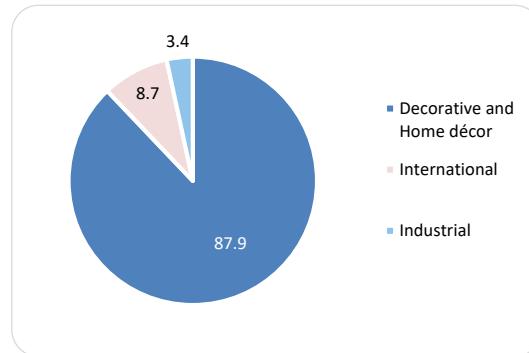
Company Overview

- Asian Paints was set up as a partnership firm in 1942 before becoming the market leader in decorative paints in 1967. It is also among the top 10 largest paint companies globally.
- It has a product portfolio spanning decorative and industrial paints, as well as a broad range of home décor solutions such as modular kitchens, sanitaryware, decorative lighting, uPVC windows, wall coverings, furniture, furnishings and rugs.
- The company has operations in 15 countries across Asia, Middle East, South Pacific and Africa, and customers in over 60 countries.
- The company's products and services are marketed under seven corporate brands globally: Asian Paints, SCIB Paints, Apco Coatings, Asian Paints Berger, Taubman, Asian Paints Causeway, and Kadisco Asian Paints.

Business Segments

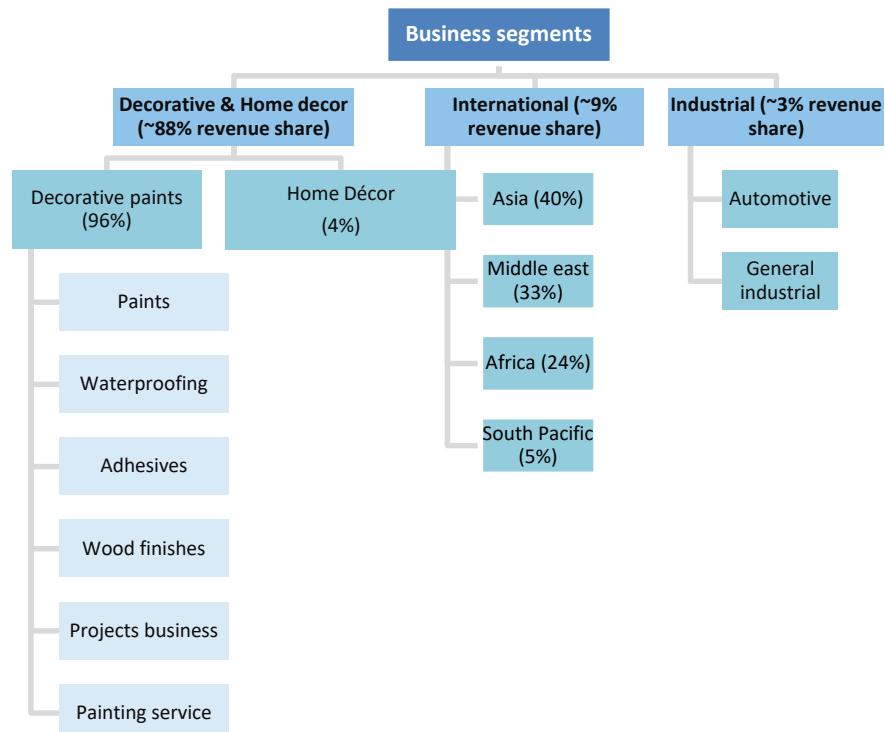
While Asian Paints is present in decorative and industrial paints in India and international markets, major revenue contribution is from the domestic decorative paints segment. The domestic decorative business, including Home décor, contributed 88.2% to the consolidated revenue in FY24. This was followed by international business at 8.7% of revenue, while industrial paints was the smallest segment at 3.1% revenue contribution.

Exhibit 33: Revenue split has been largely steady in the last several years



Source: Company, ACMIL Research

Exhibit 34: Division of business into decorative and industrial applications (revenue share in %)



Source: Company, ACMIL Research

Decorative paints and home décor, account for the majority (88.2%) of the company's revenues.

Within interior and exterior paints, economy and premium products contribute 80% while luxury segment contributes 20%.

1. Decorative paints and home décor

Asian Paints is the market leader in decorative paints and has products across categories like interior wall finishes, exterior wall finishes, waterproofing, wood finishes, enamels, adhesives, tools and undercoats for retail and projects. Additionally, the company is focusing strongly on becoming an integrated home décor player by focusing on 'share of space' instead of just 'share of wall'. The home décor foray comprises of kitchenware, bathware, uPVC windows and doors, lighting, wallpapers, etc. Together, decorative paints and home décor, account for the majority (88.2%) of the company's revenues.

a. Decorative paints segment

- **Interior and exterior paints:** Within emulsions, the company has presence across the economy, premium and luxury categories. Economy and premium products combined contribute 80% to the overall sales of emulsions while the luxury segment contributes 20%. Asian Paints' 'Tractor' brand caters to the interior economy segment, while 'Apcolite' and 'Royale' cater to the interior premium and luxury segments, respectively. Within exterior paints, the brands for economy/ premium/ luxury are Ace/ Apex/ Ultima, respectively.
- **Waterproofing:** This is one of the important segments for the company, with a double digit contribution to the overall sales. Asian Paints entered the waterproofing segment about 7 years ago and has attained market leadership in the retail segment. The company's direct reach with retailers helped to train the channel on how to convey the importance of waterproofing to the customer, thus creating awareness and demand. The company has a broad range of ~2,000 products in waterproofing, which will help it to improve its share in the projects segment as well. It plans to gain market leadership in waterproofing in the projects business in the next two years.
- **Wood finishes:** Asian Paints' WoodTech brand caters to wood finishes across economy, premium (brand: WoodTech PU), luxury (brand: WoodTech Emporio) and super luxury (brand: WoodTech Insignia) segments.
- **Painting/ home decor service:** Under its 'Beautiful Homes Painting Service', Asian Paints offers hassle-free solution for customers' home painting needs across 650 cities. The service includes pre-painting site evaluation, colour consultancy, sanitisation services, high-quality products, site supervision, on-time painting experience, technical site evaluation, and post-painting professional cleaning. The service was started as the 'Safe Painting Services' during the Covid-19 period, and recently got rebranded to its current identity. Since inception, 1,40,000 customers have used this service. Under its second service, the 'Beautiful Homes Service', the company offers end-to-end solutions which include personalised interior design service across 11 cities. The company catered to 1,700 sites via this service in FY24.
- **Projects business:** The projects/B2B segment caters to the requirements of institutions ranging from builders, large cooperative housing societies, factories and government projects. The company offers products including paints, waterproofing and construction chemicals to these customers, and has continued to fortify its offerings by adding segments like admixtures, flooring and repair products. Asian Paints is the market leader in this segment.

Exhibit 35: Plans offered under 'Beautiful Homes Painting Service':

| Classic Plan | Gold Plan | Platinum Plan* |
|--|---|---|
| <input checked="" type="checkbox"/> Included Supervision Color Consultation <input checked="" type="checkbox"/> Warranty Products Only | <input checked="" type="checkbox"/> Included Supervision Asian Paints Covering & Masking Mechanised Tools Color Consultation <input checked="" type="checkbox"/> Warranty Products Only | <input checked="" type="checkbox"/> Included Supervision Asian Paints Covering & Masking Mechanised Tools Color Consultation Sanitization Technical Site Evaluation Post Painting Professional Cleaning <input checked="" type="checkbox"/> Warranty 1 Year Service + Applicable Products Warranty |
| <small>* Available only in Mumbai, Pune, Delhi NCR, Chennai, Kolkata, Hyderabad, Bangalore, Ahmedabad, Faridabad, Ghaziabad</small> | | |

Source: Company website

b. Home Décor:

Over the last few years, Asian Paints has expanded its offerings beyond paints, to include several categories under the larger home décor space. At present, the company offers products under categories of bath fittings, modular kitchens and services, decorative lighting, uPVC windows and doors, wall covering, furniture, fabrics and furnishings and rugs. The revenue contribution from home décor is ~4% of decorative business. However, the company targets to double it to 8% by FY26E.

The company has an omnichannel approach when it comes to the home décor business, with 60 'Beautiful Homes' stores across 45 towns in India and digital presence via its website (beautifulhomes.asianpaints.com) and social media.

Management targets to double the Home Décor segment's contribution in revenue to 8% by FY26E.

Few of the key segments under home décor include:

- **Modular kitchens and wardrobes:** Asian Paints' wholly owned subsidiary, Sleek International Private Limited (Sleek) operates in kitchen components and full modular kitchen solutions. The kitchen components segment contributes 40% in revenue to this business and involves distribution of a comprehensive range of kitchen hardware, accessories, and kitchen appliances. The full modular kitchen solutions segment includes end-to-end design-to-execution services for complete kitchens, wardrobes, and fitted furniture through its showrooms. Sleek caters more to premium projects, with 1/3rd of its revenue contribution from luxury kitchens. Asian Paints is now a leading integrated kitchen solutions brand.
- **Bath fittings and sanitaryware:** The company entered the bath business in FY15 when it acquired Ess Ess and has now branded it as 'Bathsense'. The segment offers products such as faucets and fittings, shower systems, sanitaryware and flushing, vanities, kitchen sinks and faucets, and bath accessories. The products are offered under different brands- 'Royale bathrooms', 'Bathsense' and 'Ess Ess bath fittings'. It also offers bathroom design and renovation service.
- **Decorative lightings:** In April 2022, Asian Paints entered the decorative lighting business when it acquired 49.0% equity capital of Obgenix Software Private Limited, which is in the business of designing, trading and dealing in decorative lighting products and fans. These products are sold under the brand 'White Teak'. Asian Paints further acquired 11% stake in June 2023, with the remaining 40% stake to be acquired in a staggered manner. With this, Asian Paints is now the no. 1 player in organized decorative lighting segment. It has transitioned its business from Company Owned, Company Operated (COCO) model to a Franchise Owned, Company Operated (FOCO) model. Additionally, these products are also offered in the Beautiful Homes stores and Beautiful Homes studios.
- **uPVC windows and doors:** In April 2022, Asian Paints acquired 51% stake in Weatherseal Fenestration Private Limited which is involved in decoration/furnishing, including manufacturing uPVC windows and door systems. An additional 23.9% stake will be acquired in a phased manner. Weatherseal has two manufacturing facilities- one each in Rewari, Haryana and Hoskote, Karnataka. This business has become the 2nd largest player in the domestic uPVC windows and doors segment.

Exhibit 36: Key brands under home décor business



Source: Company

2. International business

Asian Paints operates in 14 countries and has 17 manufacturing facilities outside India. The company's presence is divided across 4 key regions:

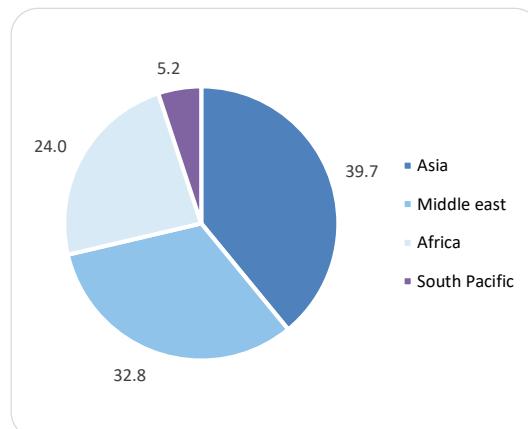
1. Asia (Egypt and Ethiopia)
2. Middle east (Oman, Bahrain, UAE and Qatar)
3. Africa (Bangladesh, Nepal, Sri Lanka and Indonesia)
4. South Pacific (Fiji, Solomon Islands, Samoa and Vanuatu)

Asia and Middle East together contribute ~73% to international revenue.

International business contributed to 8.7% of consolidated revenue in FY24, down from 11.6% in FY20, due to superior growth in other business segments.

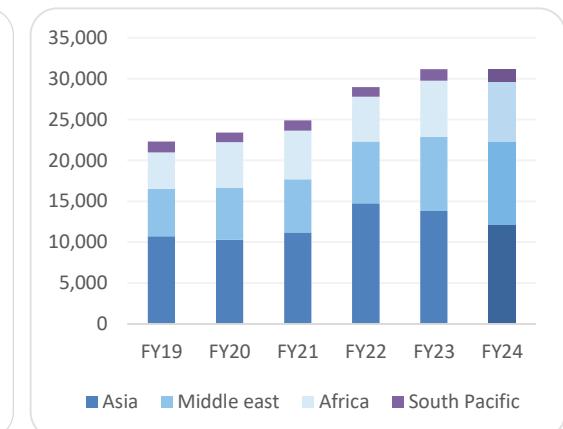
Asia, the key revenue driver within the international business, has seen muted performance on a 5-year CAGR basis, impacted by economic crisis in countries like Nepal, Sri Lanka and Bangladesh. Middle east region has been the best performer over the last 5 years, with revenue CAGR of 11.6%.

Exhibit 37: Geographical revenue mix in FY24 (%)



Source: Company, ACMIL Research

Exhibit 38: Geography-wise revenue (Rs mn); strong CAGR in Middle east and Africa in last 5 years



Source: Company, ACMIL Research

Exhibit 39: Growth led by Middle east and Africa in the last 5 years

| Geography-wise revenue growth (%) | FY20 | FY21 | FY22 | FY23 | FY24 | CAGR (FY19-FY24E) |
|-----------------------------------|-------|------|------|------|-------|-------------------|
| Asia | -3.8 | 8.7 | 31.8 | -6.4 | -12.0 | 2.6 |
| Middle east | 8.9 | 2.4 | 16.3 | 20.8 | 10.6 | 11.6 |
| Africa | 25.9 | 6.3 | -8.0 | 24.4 | 7.3 | 10.5 |
| South Pacific | -12.6 | 6.3 | -7.0 | 20.0 | 13.9 | 3.4 |
| Total | 4.9 | 6.3 | 16.3 | 7.6 | 0.0 | 6.9 |

Source: Company, ACMIL Research

Exhibit 40: Brands in international markets



Source: Company

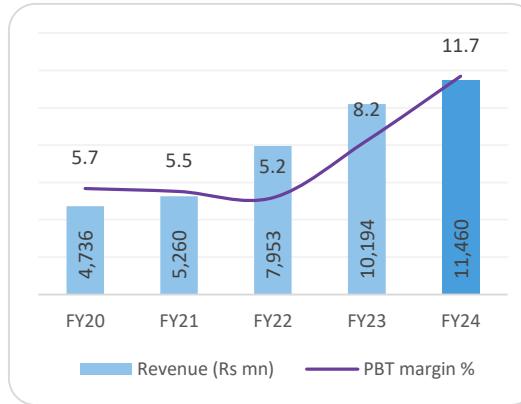
PPG-AP caters to automotive coatings segment while AP-PPG caters to general industrial coatings segment.

3. Industrial

Asian Paints has two joint ventures with the PPG Industries to cater to industrial paints segment:

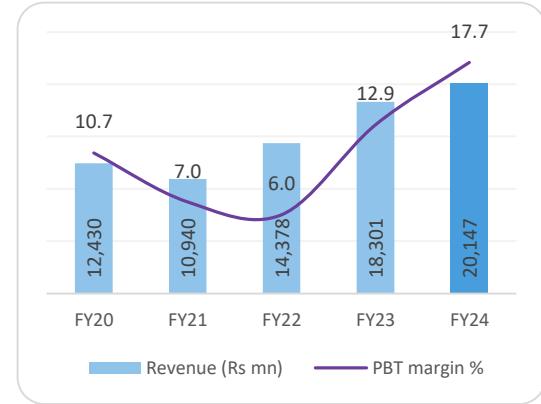
- AP-PPG caters to the non-automotive industrial coatings market in India. It has products spanning across protective coatings, powder coatings and road markings segments. Its customers are from sectors such as infrastructure, oil and gas, power, construction, machinery and equipment, and functional and domestic appliances sectors. This entity is treated as a subsidiary and hence included in the consolidated financial statements of Asian Paints and is part of the revenue segmentation.
- PPG-AP is engaged in manufacturing and trading of paints, coatings, adhesives and sealants for automotive OEMs, automotive refinish segment, and the packaging and marine segments. A third of the revenue is from 4-wheeler OEMs, 1/3rd from 2-wheelers and commercial vehicle OEMs, and the remaining from auto refinish segment. PPG-AP is an associate company and hence its revenues are not consolidated within Asian Paints. It is factored in the form of share of profit from associates.

Exhibit 41: AP-PPG has seen strong revenue growth at 24.7% CAGR over FY20-24; PBT margin has picked up.



Source: Company, ACMIL Research

Exhibit 42: Over FY20–24, PPG-AP experienced robust sales growth at a 12.8% CAGR, while PBT margin expanded.



Source: Company, ACMIL Research

Manufacturing capabilities

Globally, Asian has 27 in-house paint manufacturing facilities. Additionally, it also has tie ups with outside processing centres (OPCs) for manufacture and purchase of certain products.

As of the end of FY24, Asian Paints has a total in-house decorative paints manufacturing capacity of 18,50,000 KL per annum in India, spread across 8 plants. Additionally, it has 2 facilities for industrial coatings, 1 for chemicals, 2 for the kitchen business and 2 for Weatherseal.

Asian Paints along with its subsidiaries have 17 manufacturing facilities outside of India.

APNT's manufacturing facilities are spread across 8 states in India, giving it benefit of proximity to several markets.

Currently, the company is undergoing a massive capacity expansion exercise, with focus on backward integration.

Exhibit 43: Strong manufacturing capacities, spread across India

| Domestic facilities | No. of plants | Locations | Capacity (per annum) |
|-----------------------------|---------------|-------------------------------|----------------------|
| India (Decorative paints) | 8 | Ankleshwar (Gujarat) | 130,000 KL |
| | | Patancheru (Telangana) | 80,000 KL |
| | | Kasna (Uttar Pradesh) | 100,000 KL |
| | | Sriperumbudur (Tamil Nadu) | 140,000 KL |
| | | Rohtak (Haryana) | 400,000 KL |
| | | Khandala (Maharashtra) | 400,000 KL |
| | | Mysuru (Karnataka) | 300,000 KL |
| | | Visakhapatam (Andhra Pradesh) | 300,000 KL |
| India (Industrial coatings) | 2 | Sarigam, Gujarat | 7,200 MT |
| | | Taloja, Maharashtra | 14,000 MT |
| Chemical | 1 | Cuddalore, Tamil Nadu | 8,760 MT |
| Sleek | 2 | Pune, Maharashtra | |
| | | Wada, Maharashtra | |
| Weatherseal | 2 | Rewari, Haryana | |
| | | Hoskote, Karnataka | |

Source: Company, ACMIL Research

Exhibit 44: New facilities upcoming

| Upcoming facilities | Location | Capacity |
|---------------------|---------------------------|---------------|
| Decorative paints | Pithampur, Madhya Pradesh | 4,00,000 KLPA |
| Bath business | Wada, Maharashtra | NA |
| VAM/VAE | Dahej, Gujarat | 2,50,000 MTPA |

Source: Company, ACMIL Research

Distribution capabilities

Retail touchpoints

Being the market leader, Asian Paints has the most extensive distribution network, with retail presence across 1,60,000 touch points. The company has focused aggressively on expanding its footprint in the last 3 years. On an average, it has added about 10,000 touch points every year, and plans to continue the trajectory.

With such an extensive coverage, the company is able to swiftly service demand, by delivering products within 4-6 hours.

Tinting machines

As per the management, Asian Paints' no. of installed tinting machines are 3-3.5x higher than the nearest competitor. This puts its tinting machine count at ~1,35,000, covering ~84% of its retail network.

Market share

- Asian Paint is the undisputed market leader in the Indian decorative paints sector, with its share crossing 50%. The company has a strong share across the economy, premium and luxury segments.
- Among the top 5 listed players, it has a revenue share of 59.4% in terms of consolidated revenue and 64.0% in terms of decorative paints revenue.

Subsidiaries

The Company has 30 subsidiary companies (22 international subsidiaries), and 2 joint venture companies as on 31st March 2024.

87% of the consolidated revenue are from standalone operations. Some of the important subsidiaries that contribute to the rest are:

1. **Asian Paints International Private Limited:** It is a wholly-owned subsidiary of APNT, and is the holding company for all overseas operations, except Asian Paints (Nepal) Private Limited, Nepal, and Asian White Cement Holding Limited, Dubai International Financial Centre, UAE. It contributed 7.7%/ 1.3% to the consolidated revenue/ PAT, respectively in FY24.
2. **Berger Paints Emirates LLC:** Berger Paints Emirates Limited manufactures decorative, wood, and industrial/protective coatings as per the requirements of the GCC region and the local UAE market.
3. **Causeway Paints Lanka (Pvt) Limited:** Asian Paints acquired this company in 2017 and it is now Sri Lanka's largest paints company. It offers decorative paints, waterproofing, wood finishes, auto refinish and safe painting service.
4. **Asian Paints (Bangladesh) Limited:** In 2002, Asian Paints formed a JV with Confidence Cement to manufacture paints in Bangladesh. Today, APNT holds 95.1% stake in the entity. It has a production capacity of 25,000 KL p.a. in the country and is the 2nd largest player in the market. It covers all district in Bangladesh with a dealer network of 1,800 and more than 1,500 tinting machines.
5. **Sleek International Private Limited:** With this subsidiary, Asian Paints operates in the premium modular kitchen, wardrobes and fitted furniture business. It offers comprehensive kitchen design, customisation, and installation services. In FY24, the Board of Directors of Asian Paints approved the Scheme of Amalgamation of Sleek with Asian Paints to generate revenue synergies through shared consumer insights and optimize back-end operations.
6. **Asian Paints (Middle East) SPC:** In the middle east, the company operates in countries like Bahrain, Oman, Qatar and UAE. The company has been focusing on premium luxury product and waterproofing and construction chemicals in these regions.
7. **Asian Paints (Nepal) Private Limited:** This subsidiary has been operating in Nepal since 1983 and is the largest paints company in the country. It has two manufacturing facilities in the country.
8. **Obgenix Software Private Limited (White Teak):** White Teak is engaged in the business of decorative lighting products, fans and other décor accessories. Asian Paints first acquired a 49% stake in White Teak in April 2022, followed by 11% in June 2023, making White Teak a subsidiary of Asian Paints. APNT plans to acquire the remaining stake in a phased manner.
9. **Weatherseal Fenestration Private Limited:** Asian Paints acquired 51% stake in Weatherseal Fenestration Private Limited in June 2022, and plans to acquire another 23.9% stake from the promoters of Weatherseal in a phased manner. Weatherseal is engaged in manufacturing uPVC windows and door systems. This acquisition has helped Asian Paints to expand its offering in the home décor space.

Subsidiaries

Exhibit 45: Performance of key subsidiaries

| Sr. no. | Subsidiary | % holding by APNT | Revenue FY24 (Rs mn) | % share in consolidated revenue | PAT FY24 (Rs mn) | % share in consolidated PAT |
|---------|---|-------------------|----------------------|---------------------------------|------------------|-----------------------------|
| 1 | Asian Paints International Private Limited | 100.0 | 27,264 | 7.7 | 684 | 1.3 |
| 2 | Berger Paints Emirates LLC | 100.0 | 5,248 | 1.5 | -20 | 0.0 |
| 3 | Causeway Paints Lanka (Pvt) Limited | 100.0 | 4,146 | 1.2 | 296 | 0.5 |
| 4 | Asian Paints (Bangladesh) Limited | 95.1 | 4,114 | 1.2 | 1,007 | 1.8 |
| 5 | Sleek International Private Limited | 100.0 | 4,093 | 1.2 | -54 | -0.1 |
| 6 | Asian Paints (Middle East) SPC | 100.0 | 3,584 | 1.0 | 515 | 0.9 |
| 7 | Asian Paints (Nepal) Private Limited | 52.7 | 3,353 | 0.9 | 402 | 0.7 |
| 8 | Obgenix Software Private Limited (White teak) | 60.0 | 1,334 | 0.4 | 24 | 0.0 |
| 9 | Weatherseal Fenestration Private Limited | 51.0 | 517 | 0.1 | -184 | -0.3 |

Source: Company, ACMIL Research

Exhibit 46: Performance of JVs

| Sr. no. | Joint venture | % holding by APNT | Revenue FY24 (Rs mn) | % share in consolidated revenue | PAT FY24 (Rs mn) |
|---------|----------------------------------|-------------------|----------------------|---------------------------------|------------------|
| 1 | PPG Asian Paints Private Limited | 50.0 | 20,147 | NA* | 2,649 |
| 2 | Asian Paints PPG Private Limited | 50.0 | 11,460 | 3.2 | 1,002 |

Source: Company, ACMIL Research

*PPG-AP is an associate company of Asian Paints, hence not consolidated at the revenue level.

Investment Rationale

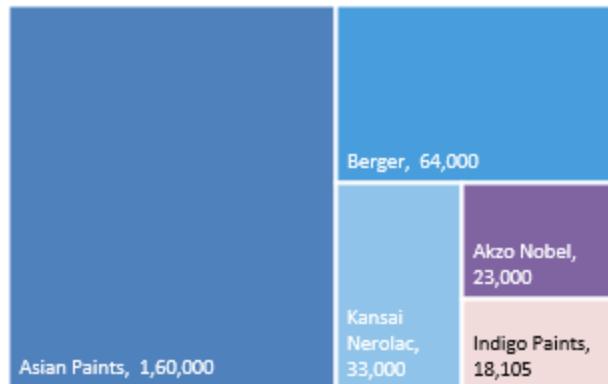
1) Strong distribution muscle which is difficult to replicate

As of the end of FY24, Asian Paints' network of retail touchpoints was larger than all the other 4 listed players combined. In a business where distribution reach and brand equity are the two main factors that can influence market shares, Asian Paints' dominance in distribution is a strong moat for the company.

Despite its strong base, Asian Paints has continued to further expand its distribution and has added an average of 10,000 retail touch points each year in the last three years. It aims to continue this trajectory by focusing on building presence in smaller cities and suburban regions. APNT is also building presence by entering the cement distribution network. This is a necessary step considering the new entrant- Birla Opus has a stronghold in the cement distribution channel, and is making use of the same to swiftly increase distribution.

Birla Opus has plans to expand its reach to 50,000 retail outlets across 6,000 towns by the end of FY25E. Till July, the company had established presence across 3,800 towns. With this, it will become the 3rd largest player in terms of distribution network, still significantly behind Asian Paints' continuously expanding reach.

Exhibit 47: Asian Paints' retail distribution presence is unparalleled (No. of retail touchpoints)



Source: Company fillings, ACMIL Research

Exhibit 48: Continued expansion in retail touchpoints for Asian Paints



Source: Company fillings, ACMIL Research

2) Expanding addressable market by focusing on bottom of pyramid segment

Asian Paints has introduced Neo Bharat Latex in April 2024, creating a new category of paints to target the unorganised paint market. This paint competes with distempers in terms of pricing, but promises better product performance in terms of superior finish, better coverage and better washability. The move aims to increase the company's addressable market, by targeting the unorganised segment, which forms ~25-30% of the overall paint industry. The target market, i.e. the bottom of the pyramid segment size is ~Rs 50,000 mn.

The overall consumption pattern in rural India is expected to improve going ahead, aided by a good monsoon season and stabilising inflation levels. This launch by the company may be able to tap into this demand at the mass end of the market. By introducing a product at a price range comparable to branded distempers, it is likely to incentivise customers in the unorganised segment, to upgrade to the organised market.

Exhibit 49: NeoBharat Latex launched with cheaper price on a per sq.ft. basis compared to its distempers

| Product Compare |  |  |  |
|--------------------------------|--|---|--|
| NeoBharat Latex Interior Paint | <ul style="list-style-type: none"> Smooth finish High coverage 1000+ Shades | Tractor Aqualock | <ul style="list-style-type: none"> Affordable Branded Distemper Better Finish than Regular Distemper |
| MRP per litre | ₹98.00 | ₹106.00 | ₹79.00 |
| Sheen | Matt | Matt | Matt |
| Durability | ★3 | ★2 | ★2 |
| Washability | ★2 | ★2 | ★2 |
| Water beading | No | No | No |
| Crack bridging | No | No | No |
| MRP per sqft. | ₹0.48 | ₹0.82 | ₹0.48 |

Source: Company website

3) Strengthening foray in home décor

In the Home Décor space, Asian Paints offers a range of products including modular kitchen & components, bath & sanitary, designer & general tiles, wardrobes & vanities, fabric & furnishing, designer wall paper, furniture, rugs, lighting solutions and uPVC windows & doors. With a network of 60 'Beautiful Homes' stores across 45 cities, the company is offering an integrated home décor experience to customers. The company has achieved leading market positions (in organised space) within several home décor categories such as decorative lighting, integrated kitchens, wallpapers, textures, fabrics and furnishings.

In FY24, the home décor revenues contributed 4% to the overall decorative revenues. Management targets to increase this contribution to 8%-10% by FY27E, supported by growth of 50%+ in some categories. The kitchen and bath businesses, which currently contribute ~60% to the home décor revenue, are likely to grow by 25%-30% CAGR, driven by additional capacity coming on stream.

Growth will be supported by widening the network, with a target to reach 150-200 stores in the next 5 years. Along with the increase in number of stores, the company also plans to make the stores larger by 2x-3x, going from about 6,000 square feet to more than 10,000-15,000 square feet per store. The company already has 2 such "Beautiful Homes Studios"- one in Chennai and another in Guwahati.

The kitchen and bath businesses are likely to grow by 25%-30% CAGR, driven by additional capacity incoming.

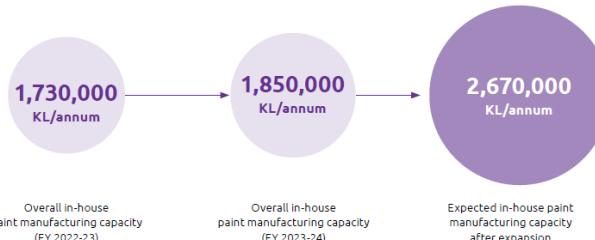
Investment Rationale

4) Strong capex cycle underway

Capex plans will lead to an in-house decorative paints capacity expansion of 54% by CY28E over FY23 levels.

In the last 3 years, Asian Paints has announced an aggressive capacity expansion plan, which includes multiple projects ranging from brownfield expansions, greenfield capacity, backward integrations and acquisitions. The total capex outlay is planned at Rs 88,500 mn with different projects coming on stream in phases till CY28E. Brownfield capacity expansions at Khandala (Maharashtra) and Kasna (Uttar Pradesh) have already come on stream while those in Ankleshwar (Gujarat) and Mysuru (Karnataka) will be completed in FY25E. The water-based paint manufacturing in Pithampur, Madhya Pradesh is expected to be completed by CY28E. These projects will lead to an in-house decorative paints capacity expansion of 54.0% over the capacity in FY23.

Exhibit 50: 54% capacity expansion between FY23 and CY28.



Source: Company fillings

Backward integration will further lead to enhancement in overall margins by 100-150 bps.

Additionally, the company has plans for backward integration to manufacture VAE (Vinyl Acetate Ethylene Emulsion) and VAM (Vinyl Acetate Monomer) in India. The company plans to set up 1,00,000 MTPA for VAM and 1,50,000 MTPA for VAE. VAM is a key ingredient required for producing VAE, which lends unique properties when used in paints and adhesives. VAE emulsions have low VOC (volatile organic compound), making them environment friendly, while also being more durable. Asian Paints uses VAE emulsion in its products, but has to import VAE as it is not produced locally. Even globally, there are limited players in VAE production. Backward integration would help Asian Paints to improve its overall margins by about 1% to 1.5%.

Separately, Asian Paints is entering into a JV to set up a white cement manufacturing facility in Fujairah, UAE. White cement is a key ingredient for putty (~20% contribution to raw material), where Asian Paints has been seeing strong growth in the last decade. It is also used for as a key ingredient for repairing, tile fixing, marble repair, textures, etc. Asian Paints will procure this white cement produced in the UAE, and plans to set up grinding units near its putty-manufacturing plants in India. This project can benefit the company by improving gross margins of some products by ~5%-7%.

Exhibit 51: Capacity expansion and backward integration projects underway

| Announcement date | Project | Increase in capacity per annum | Investment (Rs Mn) | Expected timeline | Location |
|-------------------|--|--------------------------------|--------------------|-------------------|-------------------------------------|
| Q2FY23 | White cement and white cement clinker | 2,65,000 MTPA | 5,500 | CY25E | Fujairah, UAE |
| Q2FY23 | VAM + VAE backward integration | | 21,000 | CY26E | Dahej, Gujarat |
| | Manufacturing facility for Vinyl Acetate Ethylene Emulsion (VAE) | 1,50,000 MTPA | | | |
| | Manufacturing facility for Vinyl Acetate Monomer (VAM) | 1,00,000 MTPA | | | |
| Q2FY23 | Brownfield expansion across multiple manufacturing facilities in India | 5,40,000 KLPA | 34,000 | FY25E | Kasna, Khandala, Ankleshwar, Mysuru |
| Q2FY23 | Acquisitions | | 8,000 | | |
| | -Acquired 51% stake in Harind – a specialty chemicals company with Next Gen Nanotechnology at its core | | | 128 | |
| | -Additional 39% stake to be acquired over next 5 years | | | | |
| | -Other acquisitions already made (White Teak and Weatherseal) | | | | |
| Q4FY23 | Water-based paint manufacturing facility | 4,00,000 KLPA | 20,000 | CY28E | Madhya Pradesh |
| | Total investment | | 88,500 | | |

Source: Company fillings

Key risks to our estimates

- 1) **Challenges due to new competition:** While the industry has so far not seen any irrational pricing, increased competitive intensity can lead to pricing wars. This can have an adverse impact on the profitability of the industry, which can further weigh on valuations.
- 2) **Impact on dealer profitability due to continuous network expansion:** Multiple dealers within close vicinity leads to pricing competition among dealers, thus impacting their profitability. This can hurt the dealers' connect with the company.
- 3) **Profitability concerns in home décor business:** In the last decade since acquiring its kitchen and bath business, the company has not achieved sustainable profitability in these businesses. With focus on expanding the home décor play, the profitability metrics need to be tracked.

Q1FY25 performance highlights

| Y/E March (Rs in mn) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | Consensus Est. | Var% |
|--|---------------|---------------|-----------------|---------------|-----------------|----------------|---------------|
| Net Revenue from operations | 89,697 | 91,823 | (2.3) | 87,308 | 2.7 | 93,008 | (3.6) |
| Expenses: | | | | | | | |
| Total Raw Material Cost | 51,546 | 52,404 | (1.6) | 49,147 | 4.9 | | |
| Employee Cost | 6,742 | 5,457 | 23.6 | 6,142 | 9.8 | | |
| Other Expenses (net of capitalised expenses) | 14,472 | 12,750 | 13.5 | 15,105 | (4.2) | | |
| Total Operating Cost | 72,760 | 70,610 | 3.0 | 70,394 | 3.4 | | |
| EBITDA | 16,938 | 21,213 | (20.2) | 16,914 | 0.1 | 19,666 | (13.9) |
| <i>EBITDA (%)</i> | 18.9 | 23.1 | (422)bps | 19.4 | (49)bps | 21.1 | |
| Depreciation | 2,277 | 1,983 | 14.8 | 2,256 | 0.9 | | |
| EBIT | 14,661 | 19,230 | (23.8) | 14,658 | 0.0 | | |
| Other income | 1,562 | 1,971 | (20.7) | 1,871 | (16.5) | | |
| Interest expense | 554 | 458 | 21.0 | 541 | 2.4 | | |
| Extraordinary Items | - | - | NA | - | NA | | |
| PBT | 15,669 | 20,743 | (24.5) | 15,988 | (2.0) | | |
| Tax | 4,168 | 5,301 | (21.4) | 3,488 | 19.5 | | |
| <i>Effective Tax Rate (%)</i> | 26.6 | 25.6 | 105bps | 21.8 | 479bps | | |
| Share of associates and JV profits | 367 | 307 | | 253 | | | |
| Minority interest | 168 | 245 | | 186 | | | |
| RPAT | 11,700 | 15,504 | (24.5) | 12,567 | (6.9) | 14,194 | (17.6) |
| APAT | 11,700 | 15,504 | (24.5) | 12,567 | (6.9) | | |
| APAT (%) | 13.0 | 16.9 | (384)bps | 14.4 | (135)bps | | |
| Adj. EPS (diluted) (Rs) | 12.2 | 16.2 | (24.5) | 13.1 | (6.9) | | |

Sources: Company, Bloomberg, ACMIL research

- Weak set of numbers in the quarter:** APNT reported a weak set of numbers as compared to street estimates. Revenue declined by 2.3% YoY to Rs 89,697 mn vs. consensus estimate of a low single-digit growth. Consumption was subdued due to general elections and severe heatwave. EBITDA margin was at 18.9% and saw a sharper than expected contraction of 422 bps YoY, impacted by unanticipated material price inflation and supply chain challenges. The street had estimated an average margin of 21.1%. Accordingly, EBITDA was lower than estimated by 13.9% and declined by 20.2% YoY. PAT was Rs 11,700 mn, a decline of 24.5% YoY and 17.6% lower than street estimates.
- Decorative Paints segment:** The segment saw volume growth of 7.0% YoY. Price cuts and unfavourable mix due to growth in economy range led to value decline of 3.0% YoY. Demand was impacted due to heat wave and general elections. Business in April and May was not good but there was recovery seen in June. Asian Paints saw green shoots in demand in rural, with T3 and T4 town classes doing better than T1 and T2 in the quarter. Growth will be further supported by the potential of a good monsoon season.
- Projects business:** B2B business performed much better than retail despite deceleration in the government sector projects due to the general elections. The management expects growth to improve going forward owing to demand from the real estate, government and factory segments.
- Inferior product mix:** Demand for distempers and NeoBharat Latex was strong. Additionally, Smartcare waterproofing and wood finishes performed well for the company, all contributing to product mix.
- Performance of NeoBharat Latex:** Asian Paints launched the 'NeoBharat Latex Paint' brand to target bottom of the pyramid and the unorganised segment. It has seen good pick-up in demand.
- Growth outlook:** The management expects Q2FY25E to see double-digit volume growth, boosted by improving sentiment in rural India and the upcoming festive season.
- Pricing/RM costs:** Asian Paints has taken a 1.0% price increase in July 2024 to mitigate the raw material inflation of ~1.8%. Management expects a further uptick in costs by ~1.5% in Q2FY25E and could take further price hike.
- Home Décor business:** Revenue of the Kitchen/Bath business grew by 5.0%/10.0% YoY, respectively, driven by expanding reach. White Teak/Weatherseal saw revenue growth of 14.0%/18.0% YoY, respectively.
- International business:** INR revenue declined by 2.0% YoY, impacted by decline in Africa and Asia and muted growth in Middle East and South Pacific. Subdued business also led to lower profitability, with a PBT decline of 76.0% YoY.
- Industrial business:** The JV for auto business, PPGAP, saw revenue growth of 10.0% YoY, benefiting from growth in the auto industry. On the other hand, the other JV, APPPG, had flat revenue in the quarter, impacted by subdued demand in infra-related sectors due to elections. Asian Paints is focusing on scaling up its industrial businesses.

Trailing quarterly performance:

| Y/E March (Rs mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 86,069 | 84,576 | 86,367 | 87,873 | 91,823 | 84,786 | 91,031 | 87,308 | 89,697 |
| Raw Material Cost | 53,619 | 54,356 | 53,058 | 50,532 | 52,404 | 48,015 | 51,336 | 49,147 | 51,546 |
| Employee Cost | 4,896 | 5,126 | 5,038 | 5,220 | 5,457 | 5,961 | 5,702 | 6,142 | 6,742 |
| Other Expenses | 11,995 | 12,816 | 12,158 | 13,473 | 12,750 | 13,648 | 13,432 | 15,105 | 14,472 |
| Total Expenses | 70,510 | 72,299 | 70,253 | 69,226 | 70,610 | 67,623 | 70,470 | 70,394 | 72,760 |
| EBITDA | 15,560 | 12,277 | 16,114 | 18,648 | 21,213 | 17,162 | 20,561 | 16,914 | 16,938 |
| <i>EBITDA (%)</i> | 18.1 | 14.5 | 18.7 | 21.2 | 23.1 | 20.2 | 22.6 | 19.4 | 18.9 |
| Depreciation | 2,081 | 2,157 | 2,141 | 2,202 | 1,983 | 2,087 | 2,204 | 2,256 | 2,277 |
| EBIT | 13,479 | 10,120 | 13,974 | 16,446 | 19,230 | 15,075 | 18,357 | 14,658 | 14,661 |
| <i>EBIT (%)</i> | 15.7 | 12.0 | 16.2 | 18.7 | 20.9 | 17.8 | 20.2 | 16.8 | 16.3 |
| Finance Cost | 288 | 354 | 414 | 389 | 458 | 509 | 544 | 541 | 554 |
| Other Income | 990 | 955 | 866 | 1,055 | 1,971 | 1,652 | 1,386 | 1,871 | 1,562 |
| PBT before Exceptional Items | 14,181 | 10,721 | 14,426 | 17,112 | 20,743 | 16,218 | 19,199 | 15,988 | 15,669 |
| Exceptional Items | 242 | 0 | 0 | 247 | 0 | 0 | 0 | 0 | 0 |
| PBT | 13,939 | 10,721 | 14,426 | 16,865 | 20,743 | 16,218 | 19,199 | 15,988 | 15,669 |
| Tax | 3,706 | 2,903 | 3,811 | 4,514 | 5,301 | 4,186 | 4,926 | 3,488 | 4,168 |
| <i>Tax Rate (%)</i> | 26.6 | 27.1 | 26.4 | 26.8 | 25.6 | 25.8 | 25.7 | 21.8 | 26.6 |
| Share of profit of associates/minority interest | (63.4) | 9.7 | 112.6 | (9.2) | 62.0 | 21.6 | 204.4 | 67.4 | 199.1 |
| Net PAT | 10,169 | 7,827 | 10,727 | 12,341 | 15,504 | 12,054 | 14,477 | 12,567 | 11,700 |
| <i>PAT (%)</i> | 11.8 | 9.3 | 12.4 | 14.0 | 16.9 | 14.2 | 15.9 | 14.4 | 13.0 |
| Reported EPS (Rs) | 10.6 | 8.2 | 11.2 | 12.9 | 16.2 | 12.6 | 15.1 | 13.1 | 12.2 |
| Adj. PAT | 10,411 | 7,827 | 10,727 | 12,588 | 15,504 | 12,054 | 14,477 | 12,567 | 11,700 |
| <i>Adj. PAT (%)</i> | 12.1 | 9.3 | 12.4 | 14.3 | 16.9 | 14.2 | 15.9 | 14.4 | 13.0 |
| Adj. EPS (Rs) | 10.9 | 8.2 | 11.2 | 13.1 | 16.2 | 12.6 | 15.1 | 13.1 | 12.2 |
| No. of Shares | 959 | 959 | 959 | 959 | 959 | 959 | 959 | 959 | 959 |

Sources: Company, ACMIL Research

| YoY Growth (%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 54.1 | 19.2 | 1.3 | 11.3 | 6.7 | 0.2 | 5.4 | (0.6) | (2.3) |
| EBITDA | 70.3 | 35.7 | 4.5 | 29.2 | 36.3 | 39.8 | 27.6 | (9.3) | (20.2) |
| Adj. PAT | 83.1 | 31.3 | 5.6 | 30.3 | 48.9 | 54.0 | 35.0 | (0.2) | (24.5) |
| Adj. EPS | 83.1 | 31.3 | 5.6 | 30.3 | 48.9 | 54.0 | 35.0 | (0.2) | (24.5) |

Sources: Company, ACMIL Research

| QoQ Growth(%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 9.0 | (1.7) | 2.1 | 1.7 | 4.5 | (7.7) | 7.4 | (4.1) | 2.7 |
| EBITDA | 7.8 | (21.1) | 31.3 | 15.7 | 13.8 | (19.1) | 19.8 | (17.7) | 0.1 |
| Adj. PAT | 7.8 | (24.8) | 37.0 | 17.4 | 23.2 | (22.2) | 20.1 | (13.2) | (6.9) |
| Adj. EPS | 7.8 | (24.8) | 37.0 | 17.4 | 23.2 | (22.2) | 20.1 | (13.2) | (6.9) |

Sources: Company, ACMIL Research

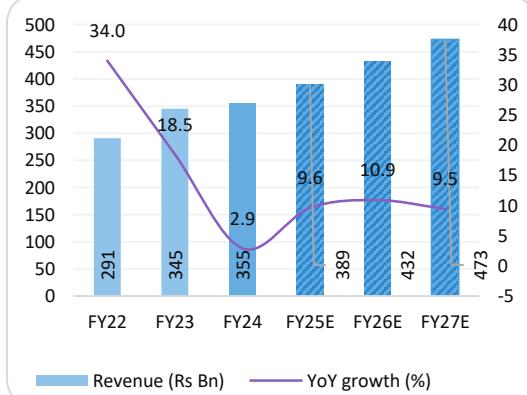
Story in charts:

Exhibit 52: Muted revenue growth in last few quarters due to impact of earlier price cuts and down trading; volume growth remains healthy



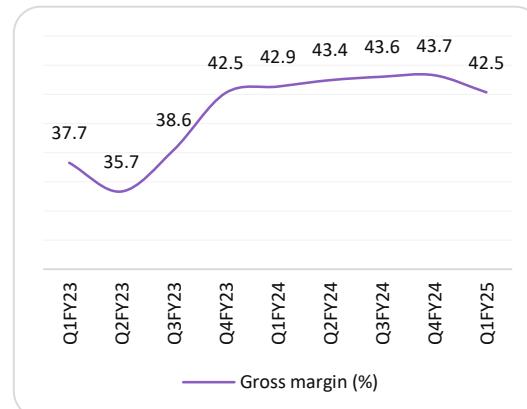
Source: Company, ACMIL Research

Exhibit 53: We expect growth to resume in FY25E based on demand improvement, recent price hikes.



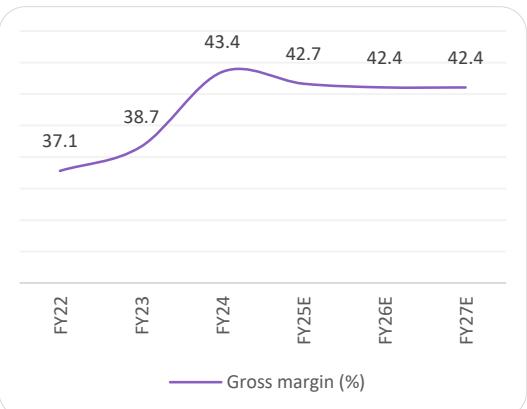
Source: Company, ACMIL Research

Exhibit 54: GM inched up in FY24, but declined in Q1FY25 due to adverse product mix and RM pressure.



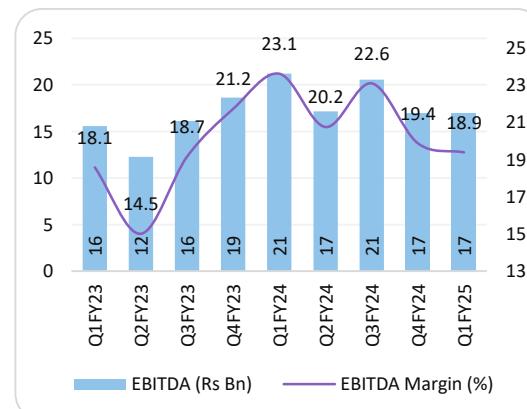
Source: Company, ACMIL Research

Exhibit 55: We expect some moderation in GM due to impact of mix and some impact of competitive pricing



Source: Company, ACMIL Research

Exhibit 56: EBITDA margin peaked in FY24, and has seen some moderation subsequently



Story in charts:

Exhibit 58: PAT margin impacted due to decline in operating margin

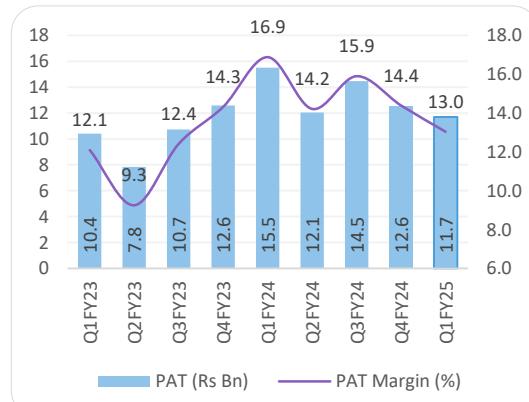


Exhibit 59: PAT margin to benefit from operating margin improvement from FY26E, partly offset by higher depreciation

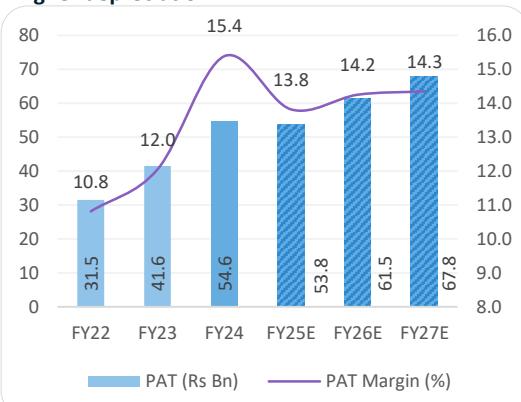
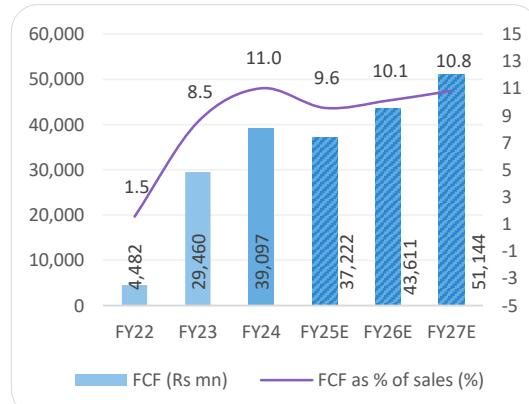
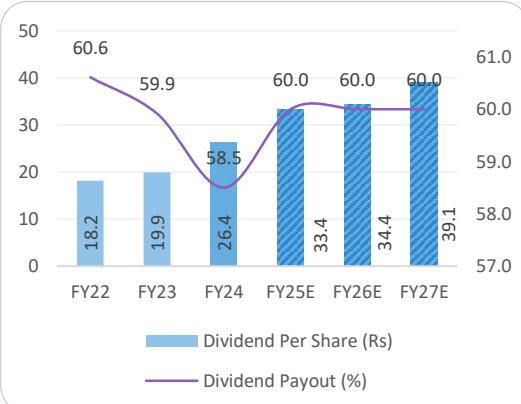


Exhibit 60: FCF generation remains strong



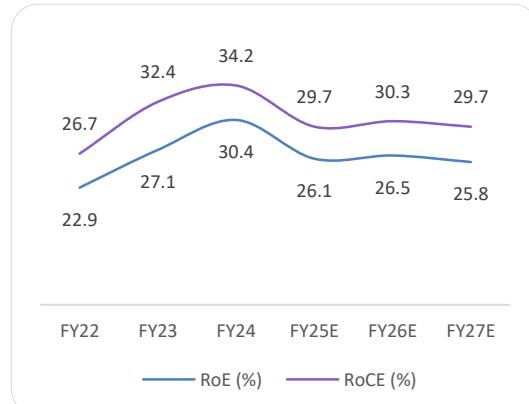
Source: Company, ACMIL Research

Exhibit 61: We expect dividend payout to remain strong



Source: Company, ACMIL Research

Exhibit 62: ROE and ROCE are expected to see some moderation due to the ongoing mega capex plan



Source: Company, ACMIL Research

Key projections

We expect Revenue/ EBITDA/ Adj. PAT CAGR of 10.0%/ 8.9%/ 7.5%, respectively. Revenue growth will be supported by strong volume growth, and anniversarisation of price cuts taken in FY24. EBITDA margin is likely to see a dip in FY25E due to higher discounts/ A&P spends and some impact on product mix due to uptick in sale of NeoBharat Latex. However, we expect margins to improve in FY26E and FY27E due to normalizing A&P spends, scaling up of home décor segments, improving utilization at new capacities and benefits of backward integration. PAT growth will be lower than EBITDA growth, due to impact of depreciation from the new plants that will be commissioned in the next 2-3 years.

Valuation and View:

We are positive on the prospects of the paints sector as we believe that we will see an improvement in demand environment in the near term and tailwinds of growing economy, improving per capita consumption and benefits of continued infrastructure growth in the medium-long term. Asian Paints being the market leader in the domestic decorative paints industry, will be a key beneficiary of the demand tailwinds.

The company is working to fortify its position by ramping up capacity (including backward integration), entering new product segments (Neo Bharat latex, home décor) and strengthening its already best-in-class distribution reach.

As the inflation rate comes down and rural incomes improve, we should see an improvement in the decorative paints demand. With the launch of Neo Bharat Latex, Asian Paints is well positioned to catch demand improvement in mass market. Asian Paints also looks well placed to hold on to its competitive strengths even as intensity of competition is heightening.

In last 5 years, APNT has seen a high average PE of ~62x, which has come down to ~55x in the last 2 years. The valuation multiples have reduced in the last couple of years on account of concerns of increasing competitive intensity, volatile raw material prices leading to pressure on margins and weaker demand environment. We believe, as the concerns around competitive intensity settles and the growth for the industry improves, the sector will see valuation re-rating.

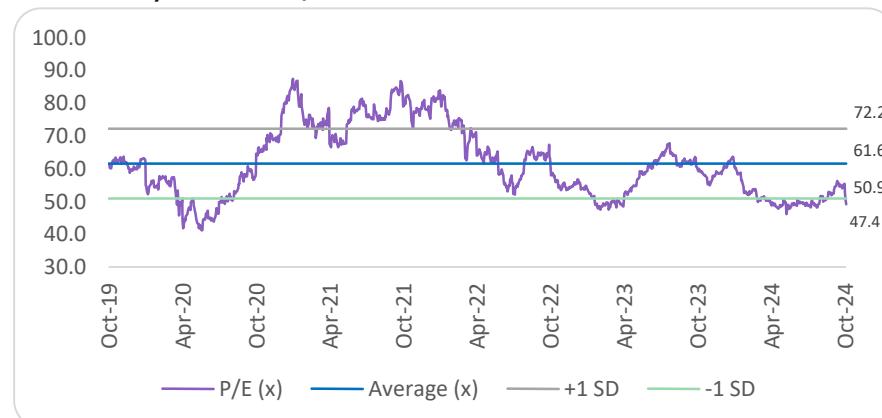
The stock is trading at 53.5x/46.8x/42.5x its FY25E/FY26E/FY27E Adj. EPS. We assign a "BUY" rating for Asian Paints with and a price target of Rs 3,675 based on 55x Sep-26E EPS of Rs 66.8, an upside potential of 24.1%.

Exhibit 63: Valuation Summary

| Valuation | Rs |
|-------------------------------------|--------------|
| Adj. EPS (4 quarter ending Sep-26E) | 66.8 |
| P/E (x) | 55 |
| Target price | 3,675 |
| CMP | 3,002 |
| Upside potential (%) | 22.4 |
| Rating | BUY |

Source: Company, ACMIL Research

Exhibit 64: 1-year forward P/E



Sources: Company, ACMIL research

Financial (Consolidated)

Income Statement

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Sales | 3,44,886 | 3,54,947 | 3,89,162 | 4,31,652 | 4,72,503 |
| <i>Growth (%)</i> | 18.5 | 2.9 | 9.6 | 10.9 | 9.5 |
| RM cost | 2,11,565 | 2,00,902 | 2,23,181 | 2,48,571 | 2,72,103 |
| Employee cost | 20,281 | 23,262 | 27,357 | 29,784 | 32,046 |
| Other expenses | 50,442 | 54,934 | 61,779 | 65,536 | 70,284 |
| Total expenses | 2,82,288 | 2,79,098 | 3,12,317 | 3,43,891 | 3,74,433 |
| EBITDA | 62,598 | 75,850 | 76,844 | 87,761 | 98,070 |
| <i>Growth (%)</i> | 30.3 | 21.2 | 1.3 | 14.2 | 11.7 |
| EBITDA margin (%) | 18.2 | 21.4 | 19.7 | 20.3 | 20.8 |
| Depreciation | 8,580 | 8,530 | 9,836 | 11,391 | 14,060 |
| EBIT | 54,018 | 67,320 | 67,008 | 76,370 | 84,009 |
| <i>EBIT margin (%)</i> | 15.7 | 19.0 | 17.2 | 17.7 | 17.8 |
| Interest expense | 1,445 | 2,052 | 2,185 | 1,963 | 1,963 |
| Other income | 3,865 | 6,880 | 6,728 | 7,401 | 8,141 |
| PBT before exceptional items | 56,438 | 72,148 | 71,551 | 81,807 | 90,187 |
| Exceptional items | 489 | - | - | - | - |
| PBT | 55,950 | 72,148 | 71,551 | 81,807 | 90,187 |
| Tax | 14,935 | 17,901 | 18,251 | 20,615 | 22,727 |
| <i>Effective tax rate (%)</i> | 26.7 | 24.8 | 25.5 | 25.2 | 25.2 |
| Share of profit of associate/ MI | 50 | 355 | 476 | 318 | 339 |
| Rep. PAT | 41,064 | 54,602 | 53,776 | 61,510 | 67,798 |
| <i>Rep. PAT Growth (%)</i> | 35.5 | 33.0 | (1.5) | 14.4 | 10.2 |
| <i>Rep. PAT Margin (%)</i> | 11.9 | 15.4 | 13.8 | 14.2 | 14.3 |
| Adj. PAT | 41,553 | 54,602 | 53,776 | 61,510 | 67,798 |
| <i>Adj. PAT Growth (%)</i> | 32.1 | 31.4 | (1.5) | 14.4 | 10.2 |
| <i>Adj. PAT Margin (%)</i> | 12.0 | 15.4 | 13.8 | 14.2 | 14.3 |

Source: Company, ACMIL Research

Balance Sheet

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity share capital | 959 | 959 | 959 | 959 | 959 |
| Reserves & surplus | 1,58,963 | 1,86,324 | 2,08,109 | 2,36,635 | 2,66,944 |
| Non-controlling interests | 4,537 | 6,954 | 8,043 | 9,451 | 11,003 |
| Net Worth | 1,64,459 | 1,94,237 | 2,17,111 | 2,47,046 | 2,78,906 |
| Non-current borrowings (incl. lease liabilities) | 1,225 | 2,950 | 2,950 | 2,950 | 2,950 |
| Other financial liabilities | 7,289 | 10,953 | 10,953 | 10,953 | 10,953 |
| Other non-current liabilities | 6,047 | 6,092 | 6,092 | 6,092 | 6,092 |
| Non current liabilities | 14,562 | 19,995 | 19,995 | 19,995 | 19,995 |
| Borrowings | 8,961 | 10,528 | 10,528 | 10,528 | 10,528 |
| Trade payables | 36,354 | 38,313 | 42,562 | 47,404 | 51,892 |
| Lease liabilities | 2,315 | 2,720 | 2,720 | 2,720 | 2,720 |
| Other current financial liabilities | 24,360 | 26,754 | 29,333 | 32,536 | 35,615 |
| Other current liabilities | 6,969 | 6,695 | 7,340 | 8,141 | 8,912 |
| Current liabilities | 78,959 | 85,010 | 92,483 | 1,01,329 | 1,09,666 |
| Equity & liabilities | 2,57,980 | 2,99,241 | 3,29,588 | 3,68,369 | 4,08,567 |
| Net PPE | 41,457 | 44,462 | 59,409 | 62,151 | 78,540 |
| CWIP | 10,196 | 26,984 | 19,482 | 23,769 | 12,724 |
| Intangible assets | 4,159 | 8,442 | 8,442 | 8,442 | 8,442 |
| RoU assets | 12,089 | 18,563 | 18,563 | 18,563 | 18,563 |
| Financial assets | 11,483 | 14,097 | 14,898 | 15,780 | 16,749 |
| Other non current assets | 13,245 | 11,324 | 12,261 | 13,327 | 14,367 |
| Non current assets | 92,628 | 1,23,870 | 1,33,054 | 1,42,030 | 1,49,385 |
| Inventories | 62,106 | 59,234 | 65,803 | 73,289 | 80,227 |
| Investments | 26,970 | 32,034 | 35,238 | 38,761 | 42,637 |
| Trade receivables | 46,369 | 48,891 | 53,603 | 59,456 | 65,083 |
| Cash | 5,231 | 8,293 | 14,214 | 26,217 | 41,714 |
| Bank balances | 3,207 | 2,547 | 2,547 | 2,547 | 2,547 |
| Other financial assets | 15,928 | 16,514 | 16,514 | 16,514 | 16,514 |
| Other current assets | 5,540 | 7,858 | 8,616 | 9,556 | 10,461 |
| Current assets | 1,65,352 | 1,75,371 | 1,96,534 | 2,26,339 | 2,59,182 |
| Total assets | 2,57,980 | 2,99,241 | 3,29,588 | 3,68,369 | 4,08,567 |

Source: Company, ACMIL Research

Cash Flow

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| PBT | 56,888 | 73,478 | 71,551 | 81,807 | 90,187 |
| Add: Depreciation | 8,580 | 8,530 | 9,836 | 11,391 | 14,060 |
| Add: Interest | 1,445 | 2,052 | 2,185 | 1,963 | 1,963 |
| Other adjustments | (2,315) | (4,773) | (6,252) | (7,082) | (7,802) |
| Chg in working cap | (7,721) | 101 | (4,566) | (5,433) | (5,132) |
| Tax | (14,943) | (18,351) | (18,251) | (20,615) | (22,727) |
| Operating Cash flow | 41,934 | 61,036 | 54,503 | 62,031 | 70,549 |
| Capex | (12,475) | (21,939) | (17,282) | (18,420) | (19,405) |
| Free Cash Flow | 29,460 | 39,097 | 37,222 | 43,611 | 51,144 |
| Investments | 16 | (2,907) | (4,413) | (4,813) | (5,254) |
| Interest/ dividend income/ miscellaneous | (288) | (330) | 6,199 | 6,743 | 7,509 |
| Investing Cash flow | (12,746) | (25,176) | (15,496) | (16,490) | (17,150) |
| Equity Capital | | | | | |
| Debt | (1,617) | (2,797) | 0 | 0 | 0 |
| Dividend paid | (19,361) | (25,509) | (31,991) | (32,983) | (37,490) |
| Interest paid | (1,420) | (1,906) | (2,185) | (1,963) | (1,963) |
| Others | 997 | 387 | 1,089 | 1,408 | 1,551 |
| Financing Cash flow | (21,401) | (29,825) | (33,087) | (33,539) | (37,902) |
| Net chg in cash | 7,787 | 6,035 | 5,921 | 12,003 | 15,497 |
| Opening cash position | 22,833 | 30,543 | 36,270 | 42,190 | 54,193 |
| Closing cash position | 30,543 | 36,270 | 42,190 | 54,193 | 69,690 |
| Adjustment for investments | (25,312) | (27,976) | (27,976) | (27,976) | (27,976) |
| Closing cash position | 5,231 | 8,293 | 14,214 | 26,217 | 41,714 |

Source: Company, ACMIL Research

Key Ratios

| YE March (Rs) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|-------|-------|-------|-------|-------|
| Adj. EPS | 43.3 | 56.9 | 56.1 | 64.1 | 70.7 |
| CEPS | 43.7 | 63.6 | 56.8 | 64.7 | 73.6 |
| BVPS | 171.5 | 202.5 | 226.3 | 257.6 | 290.8 |
| DPS declared | 25.7 | 33.3 | 33.6 | 38.5 | 42.4 |
| Valuations (x) | | | | | |
| P/E | 69.3 | 52.7 | 53.5 | 46.8 | 42.5 |
| P/BV | 17.5 | 14.8 | 13.3 | 11.7 | 10.3 |
| EV/Sales | 8.3 | 8.0 | 7.3 | 6.6 | 6.0 |
| EV/EBITDA | 45.5 | 37.6 | 37.1 | 32.5 | 29.1 |
| Dividend Yield (%) | 0.7 | 0.9 | 1.1 | 1.1 | 1.3 |
| Return Ratio (%) | | | | | |
| RoCE | 32.4 | 34.2 | 29.7 | 30.3 | 29.7 |
| RoE | 27.1 | 30.4 | 26.1 | 26.5 | 25.8 |
| Gearing Ratio (x) | | | | | |
| Net Debt/Equity | (0.1) | (0.1) | (0.2) | (0.2) | (0.3) |
| Net Debt/EBITDA | (0.0) | (0.0) | (0.4) | (0.2) | (0.2) |
| Working Cap Cycle (days) | 94 | 88 | 88 | 88 | 88 |
| Profitability (%) | | | | | |
| EBITDA Margin | 18.2 | 21.4 | 19.7 | 20.3 | 20.8 |
| EBIT Margin | 15.7 | 19.0 | 17.2 | 17.7 | 17.8 |
| Adj. PAT Margin | 12.0 | 15.4 | 13.8 | 14.2 | 14.3 |

Source: Company, ACMIL Research

Berger Paints Ltd. (BRGR)

Gaining market share steadily

We initiate coverage on Berger Paints India with a 'Buy rating' and a target price of Rs 635, implying an upside potential of 17.7%. The company, being the 2nd largest decorative paints company in India, will also benefit from the industry tailwinds. It is expanding its distribution aggressively, which is helping steady market share gains. As 20% of the company's revenues are from the industrial paints segment, it will benefit from the infrastructure growth being witnessed in the country.

Target to double revenue between FY23-FY29E, supported by strong volume growth

Berger Paints India plans to achieve a revenue of Rs 2,00,000 mn by FY29E. This implies a CAGR of ~12.3% over FY24-FY29E compared to a 13.1% revenue CAGR seen over FY19-FY24. This growth is expected to be driven by strong double-digit volume growth. Strong distribution expansion, new product launches, improving influencer outreach and growth in segments like construction chemicals and waterproofing will aid this growth.

Market share gains over last several years

Berger Paints India has seen a steady YoY expansion in its market share in the last few years. The market share in decorative paints has expanded from 18.3% in FY20 to 20.9% in Q1FY25.

Continued distribution and tinting machine expansion

In terms of distribution, the company is focusing on improving its presence in areas where it is weaker, such as western and southern India and urban markets. The company has set up a new team to focus on improving distribution in urban. It has potential to gain further from distribution expansion, as it has gaps in presence in many states.

Industrial coatings business to see growth

Berger Paints India is the market leader in protective coatings. With growth expected to continue in these segments with continued Government spending on highways, railways, ports and airports, Berger Paints India will be a beneficiary. To tap the growth potential, Berger Paints India has continued to focus on innovation.

Valuation & Outlook

For Berger Paints, we expect Revenue/ EBITDA/ Adj. PAT CAGR of 9.0%/7.4%/7.5%, respectively over FY24-FY27E. The stock is currently trading at 53.4x/47.5x/43.3x its FY25E/FY26E/FY27E Adj. EPS. For the last 5 years, the stock traded at an average PE of 68x while for the last 2 years it traded at 54x. The higher competitive intensity and raw material cost fluctuation has weighed on the industry valuation multiples.

With strong volume growth continuing for Berger Paints along with pricing stability from H2FY25E, growth potential in industrial and projects business, and strengthening distribution network, we may see the valuation multiples going closer to historical averages. We value the company based on 53x its Sep-26E EPS of Rs 12.0, arriving at a price target of Rs 635. This implies an upside potential of 17.7%, hence we assign a 'Buy' rating.

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue | 1,05,678 | 1,11,989 | 1,19,390 | 1,32,528 | 1,45,127 |
| Growth (%) | 20.6 | 6.0 | 6.6 | 11.0 | 9.5 |
| EBITDA | 14,872 | 18,613 | 18,764 | 21,071 | 23,079 |
| EBITDA (%) | 14.1 | 16.6 | 15.7 | 15.9 | 15.9 |
| Adj. PAT | 8,594 | 11,677 | 11,780 | 13,225 | 14,517 |
| Adj. EPS | 7.4 | 10.0 | 10.1 | 11.3 | 12.5 |
| Adj. EPS Growth (%) | 3.2 | 35.9 | 0.9 | 12.3 | 9.8 |
| ROE (%) | 26.2 | 27.8 | 23.8 | 23.6 | 22.8 |
| ROCE (%) | 20.4 | 23.6 | 20.4 | 20.1 | 19.4 |
| P/E (x) | 73.1 | 53.8 | 53.4 | 47.5 | 43.3 |

Source: Company, ACMIL Research

Buy

Target: ₹635

Key Data

| | |
|--------------------------|---------|
| Bloomberg code: | BRGR IN |
| Target price (₹) | 635 |
| CMP (₹) | 539 |
| Upside/ (Downside) (%) | 17.7 |
| Rating: | Buy |
| Shares outstanding (mn): | 1,170 |
| Mcap (Rs bn) | 631 |
| 52-week H/L (Rs): | 630/439 |

Price Performance (%)

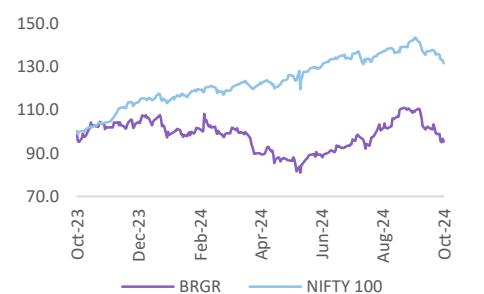
| | |
|-----------|--------|
| 1 month | (12.0) |
| 3 months | (0.5) |
| 12 months | 0.4 |

Shareholding Pattern (%)

| | Mar'24 | Jun'24 | Sep'24 |
|--------------|--------|--------|--------|
| Promoter | 75.0 | 75.0 | 75.0 |
| FII | 10.6 | 7.5 | 7.0 |
| DII | 5.2 | 7.6 | 8.8 |
| Public/other | 9.2 | 9.9 | 9.2 |
| Pledge | - | - | - |

Sources: BSE

Performance vs. Nifty 100



Sources: NSE

Analyst

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Berger Paints is the 2nd largest paint company in India and a leading player in waterproofing and construction chemicals.

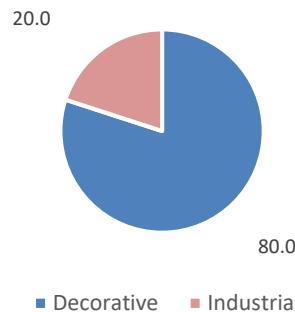
Company Overview

- Berger Paints is the 2nd largest paint company in India and also has presence in Nepal, Bangladesh and Poland. It is also a leading player in waterproofing and construction chemicals.
- It has a long history of 100 years in India which started with Mr George Hadfield setting up a small paint company in 1923 in Calcutta, named Hadfields (India) Limited. In the subsequent years, there were multiple changes in the ownership of the company.
- In 1947, British Paints (Holdings) Limited bought over Hadfields (India) Limited and changed its name to British Paints (India) Limited. In 1969, Berger, Jenson & Nicholson, UK acquired the company, thus making it a member of the Berger Group. Ownership changed again in 1976, in favour of UB group.
- In 1991, Mr KS Dhingra, Mr GS Dhingra, and their associates acquired the controlling stake in the company. Today, the Dhingra family along with Jenson & Nicholson (Asia) Limited are the promoters, with a combined shareholding of 74.99% in the company.

Business Segments

- Berger Paints India derives its revenue from decorative and industrial paints.
- Decorative paints contribute to the lions' share of revenues at ~80.0%. The remaining comes from its industrial paints business.

Exhibit 65: Revenue split between industrial and decorative



Share of revenues between decorative: industrial at 80:20.

Exhibit 66: Division of business into decorative and industrial applications

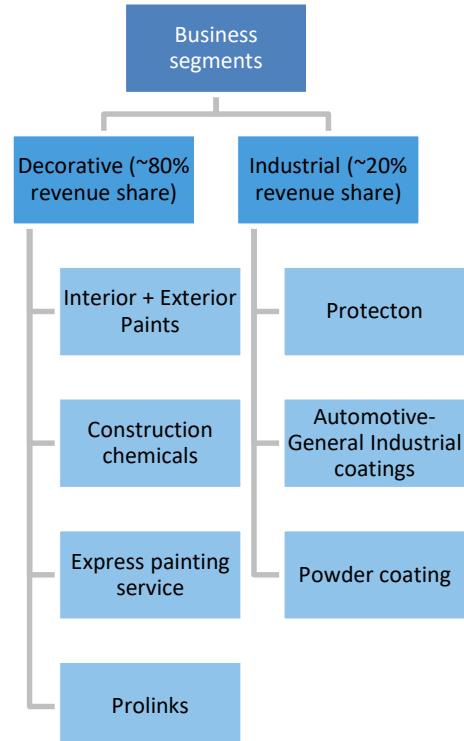
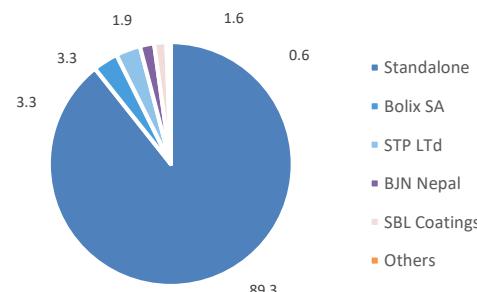


Exhibit 67: Revenue split (%) between standalone and subsidiaries (FY24)



1. Decorative

a. Interior + Exterior Paints

• Interior paints:

Berger Paints' interior painting segment includes paints with designer finishes, interior emulsions, distempers, and ceiling paint. and bio-resistant options. The company sells interior paints across the luxury, premium and economy avenues under the following brands:

1. Designer finishes: Silk GlamArt
2. Luxury: Silk
3. Premium: Easy Clean; Rangoli
4. Economy: Bison

Berger Paints India also offers putty under the brand 'Bison', cement paints under the brand 'Durocem' and primers under the brand 'BP'.

For enamels, the company has two brands- 'Luxol' in the premium range and 'Butterfly' in the economy range.

It also has a product range for wood coatings, with luxury products sold under its brand 'Imperia' and premium/economy products under the brand 'Woodkeeper'. Apart from conventional solvent-based wood finish products, Berger Paints India has developed a range of wood finishes based on water-based emulsions that are easy-to-use and have low odour.

• Exterior paints:

Under this segment, the company offers a range of cement paints, exterior emulsions and roof and floor coatings. The portfolio includes tailored paints like Weather Coat Anti Dust Kool for dust resistance and cooling. The exterior emulsions can be categorized as:

1. Luxury: Weathercoat Long Life
2. Premium: Weathercoat
3. Economy: Walmasta

Berger Paints India offers various designer finishes, branded as- 'Florentina', 'Solitaire', and 'Ruff N' Tuff'.

• British paints division:

The companies' British Paints division offers a complete range of architectural coatings, general industrial coatings, and waterproofing solutions under its separate brand. This division has its own manufacturing facilities, warehouses and channel partners.

b. Construction Chemicals:

Under the construction chemicals segment, the company offers products for wall waterproofing and treatment, roof waterproofing and treatment and tile fixing products. These products are branded under the names 'HomeShield' or 'Dampstop'.

It has also introduced a scientific damp detection instrument which enables the company to provide data-backed solutions for wall protection. As per the company, it is India's only such instrument.

Berger Paints India's subsidiary – STP Ltd. also specializes in construction chemicals, among other products. Combining these two, the company has seen strong multifold growth in the waterproofing and construction chemical business in FY24. It plans to be in a top 3 position in India in this business by the end of FY25E.

c. Express painting:

Since 2015, Berger Paints India has been offering its 'Express Painting' service for consumers seeking hassle-free painting experiences. Customers can make use of the service for their interior/ exterior painting needs as well as for waterproofing and wood coatings. The service claims to be 40% faster than traditional painting while maintaining the same cost. The service includes at-home consultancy, trained painter workforce using efficient mechanized tools, site supervision, site sanitization once the process is complete and a 365-day Help Desk. The painters are safety-certified, use automated tools, and take care of covering furniture and floor to protect the customers' valuables. The paints used are health friendly, low VOC products.

Saw strong multifold growth in the WPCC business in FY24 and aspire to be in the top 3 in India by the end of FY25E.

d. Prolinks:

Berger Prolinks is the projects sales division of the company, which caters to the infrastructure, real estate, and industrial sectors. This division contributes to ~8.0% of the standalone revenue of Berger Paints India. It offers expert-driven solutions to customers in the B2B and architectural segments. Dedicated teams target smaller urban projects and maintenance activities for buildings from the past real estate boom. The company has also expanded its offering to include construction chemicals and waterproofing products, making it a more comprehensive solutions provider. Prolinks has catered to protection and aesthetic needs of many landmark and heritage buildings, flyovers, metro stations, airports and large residential complexes and industries.

Exhibit 68: Interior decorative paints

| Designer finishes | Interior emulsion | | |
|---|---|--|---|
|  |  |  |  |
| Silk GlamArt Metallica | Silk Glamor | Easy Clean | Bison Glow |
|  |  |  |  |
| Silk GlamArt Non Metallic | Easy Clean Fresh | Rangoli Total Care | Bison Emulsion |
| Wood coatings | New products launched | | |
|  |  |  |  |
| Imperia Polyester | Imperia Luxury Polyurethane | Silk Glamor Dazzle | Easy Clean Silky Touch |

Source: Company

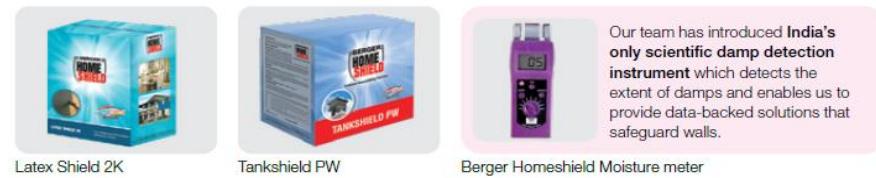
Exhibit 69: Exterior decorative paints

| Designer finishes | Exterior emulsion | | |
|---|---|--|---|
|  |  |  |  |
| Florentina | Weathercoat Long life 15 | Weathercoat Long life Flexo | Weathercoat Glow |
|  |  |  |  |
| Source: Company Solitaire | Weathercoat Long life 10 | Weathercoat Antidustt | Walmasta Glow |
| Ruff N' Tuff | Walmasta | Durocem Extra | Weathercoat Anti Dustt Kool |

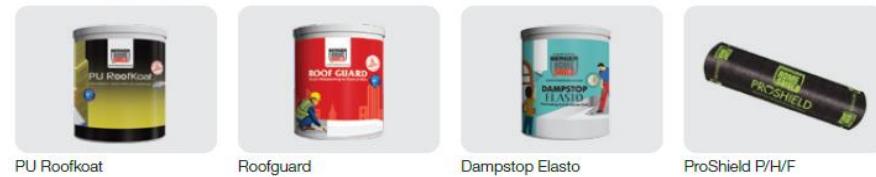
Source: Company

Exhibit 70: Construction chemicals

Wall waterproofing and wall treatment



Roof waterproofing and treatment



Tile fixing solutions



New products launched



Source: Company

In FY23, the Protecton business crossed Rs 10,000 mn mark in terms of revenue, in less than four years

2. Industrial paints

a. Protecton:

The company is a leader in the protective coatings business. Berger Protecton offers tailored high performance coating solutions for various industry segments, including oil refineries, power plants, railway coaches, bridges, and durable floor coatings. Each industry/ application presents unique complexities/ performance requirements requiring bespoke formulations. Protecton range of products covers all segments of industries and infrastructure - floor-to-roof. This includes products for floor coatings, innovative epoxy coatings, direct-to-metal coatings, passive fire protection using paint sprays, pipe coatings, road markings, clean room coatings, can and drum coatings, anti-fouling coatings and internationally certified potable water coatings. The company has developed these products through various collaborations with institutes like IITs, CSIR, CECRI or its own R&D division.

In FY23, the Protecton business crossed Rs 10,000 mn mark in terms of revenue, in less than four years. In FY24, the company launched several new products in this segment such as:

1. Low cost variant 'Sigmark Smart' which can meet requirements of the Ministry of Road Transport.
2. Quickspray MP250 and MP500 for segments like sewage treatment plants, potable water, floor coating, and premium roofing.
3. Received many approvals for irrigation.
4. Expanded into the can coating business with collaborations.
5. Entered the Cap Coating business
6. 'Thermo Indicative Paint' received a breakthrough order at IOCL, Gujarat, opening various opportunities in refineries and fertilizers.

b. Automotive-General Industrial Coatings

In the automotive coatings segment, Berger Paints India caters to commercial vehicles, two-wheelers and tractors. In FY24, it entered the bus body and e-rickshaw segments. It provides products such as QD paint, PU paint, thermosetting-acrylic paint, heat resistant paint, casting sealer, etc. However, the auto coatings business is relatively small for the company as compared to the protective and general industrial coatings segments.

Berger Paints India is a leader in the general industrial coatings business and caters to industries such as construction and agricultural equipment, fans and electricals, helmets, cycles, barrels, containers and cylinders. The company is working on adding more dealers to further expand this business.

c. Powder Coatings

Under its powder coatings segment, the company caters to coatings for home appliances, automotive components, elevated architectural designs, agriculture and construction equipment and furniture. Offerings include bonded metallic powder coatings for enhanced aesthetics, durable polyester-based coatings for clean room panels, unique finishes like wrinkle and alligator textures, and heat-resistant coatings for high-temperature environments. Key brands include:

1. Ultracoat: Pure epoxy and epoxy-polyester hybrid systems for segments such as furniture, lighting fixtures, electric fans, automotive accessories.
2. Permacoat: Pure polyester and polyurethane chemistries for the architectural segment, automotive accessories, alloy wheels, dish antennas, agricultural and construction equipment, generators, and control panels.
3. Qualicoat: Pure epoxy and epoxy-polyester hybrid chemistries for white goods, electric fans, storage solutions, and elevators.

Besides these, two more brands were launched in FY24:

1. Duraberg: Warranty grade and high durable polyester powder coatings for the architecture segment, used in facades, curtain walls, door and window frames, and handrails.
2. Rebacoat: Sustainable functional powder coatings which offer fusion bonded epoxy powder coatings primarily for TMT bars (REBAR), pipes, and valves.

Key subsidiaries and joint ventures (1/3)

A. Wholly-owned subsidiaries

1. Berger Jenson & Nicholson (Nepal) Private Limited ('BJN Nepal')

Berger Paints India acquired Jenson & Nicholson, Nepal in 2000 and was renamed as BJV Nepal. It is a wholly-owned subsidiary, which operates in the business of manufacturing and sale of construction chemicals, industrial, and decorative coatings within Nepal. It is a market leader in these segments in Nepal. It has one manufacturing unit in Nepal.

The Nepal economy has been impacted due to macro-economic issues, including inflation and liquidity crunch. This has resulted in a slowdown in construction sector. As a result, BJV Nepal had muted sales growth in FY23 and a steep de-growth in FY24. Profitability was also impacted for these two years.

2. SBL Coatings Limited

It is a 100% subsidiary of Berger Paints India, and was acquired in 2017. It manufactures specialty industrial coatings, which are formulated by leveraging Swiss technology. It has manufacturing plants located in Derabassi (Punjab).

Its product range includes primers, putty, base coats and top coats in various visual effects like pearl, metallic, opaque and clear in custom-made finishes. Products are available in chemistries like polyurethanes, epoxies, TSA, TPA, silicones, alkyds in water based, solvent based, UV cured, electro-coatings, water-borne, zinc flake and anti-bacterial. It also has a range of products for retail sale, under the brand 'Magico' for different surfaces such as wood, metal, glass, brass, steel, aluminium, MDF, etc.

It supplies to customers across industries such as auto components, consumer goods, general industries, artificial jewelry, hardware, handicraft and home furnishing, cookware and bakeware.

In FY24, the revenue of this subsidiary was Rs 1,811 mn. It has seen a revenue CAGR of 11.2% in the last 5 years. PAT has grown at a CAGR of 28.7% in the same period, reporting Rs 329 mn in FY24.

3. Bolix S.A.

It is a step-down wholly-owned subsidiary of Berger Paints India, which operates in Poland and was acquired in 2008. It is a leader in 'External Thermal Insulation Composite Systems' (ETICS), which helps save at least 35% in heating costs for buildings. It exports to over 20 countries and has subsidiaries in the UK, France, and Ukraine. Its range of product offering includes:

- Acrylic, silicate, and mineral plasters
- Thermal insulation adhesives, mortars
- Ready to use panels like finishing coat, wood effect, ribbed effect, concrete effect, 3D effect panels
- Gel adhesive for ceramic tile flooring

The focus on European economies on energy conservation has opened opportunities for this business. It is primarily a projects driven business.

The business saw a decline in topline and profitability in FY23 on account of the Ukraine war and inflation. Performance improved in FY24, driven by the UK business, with topline growth and gradual improvement in profit margins. In FY24, the revenue of this subsidiary was Rs 3,733 mn. It has seen a revenue CAGR of 8.5% in the last 5 years. PAT has grown at a CAGR of 16.2% in the same period, reporting Rs 186 mn in FY24.

B. Subsidiaries with majority shareholding

1. STP Limited

Berger Paints India acquired 95.53% stake in STP Limited in FY20. STP Ltd specializes in construction chemicals, flooring compounds, bitumen and coal tar-based products, sealants and adhesives, and protective and anti-corrosive coatings. It has a legacy of 85 years in this business. It has six manufacturing units in India, located in Gujarat, Uttar Pradesh, Jharkhand, West Bengal, Tamil Nadu, and Goa.

STP's expertise in construction chemicals, waterproofing and protective coatings business complements Berger Paints India's business in these segments, leading to synergies. Its customers include companies such as Jindal Steel & Power, Indian Oil, GAIL, Indian Railways, GMR group, Hindustan Construction Company Ltd. (HCC), Jaypee group, etc.

STP Ltd has seen strong double digit topline growth and significant improvement in its profitability in the last three years.

Key subsidiaries and joint ventures (2/3)

2. Berger Rock Paints Private Limited

Berger Rock Paints was set up in 2018 with 51% stake held by Berger Paints India. The remaining stake is held by Rock Paints Co. Ltd., Japan. Berger Rock specializes in auto refinish products and has grown by nearly 40% YoY in FY24. The company targets to become one of the top three players in auto refinish in next 3 years. This subsidiary does not contribute much (<1%) to the consolidated Berger Paints India profitability.

3. Berger Hesse Wood Coatings Private Limited ('Berger Hesse')

Berger Paints partnered with Hesse Group of Germany to acquire majority share (51%) of Berger Hesse Private Limited in 2019. Berger Hesse's product range includes wood coatings, including pigmented PU, UV coatings, and water-based wood coatings. This subsidiary does not contribute much (<1%) to the consolidated Berger Paints India profitability.

C. Joint Ventures

1. Berger Becker Coatings Private Limited

It is a joint venture with Becker Industrial Coatings Holding AB, Sweden, where Berger Paints India holds a 48.98% stake. Berger Becker Coatings India offers industrial paints and coil coating solutions for cabinets and doors of refrigerators, washing machines, ovens, and more.

2. Berger Nippon Paint Automotive Coatings Private Limited ('BNPAC')

Berger Paints India holds a 49% stake in BNPAC. It supplies coatings for four wheelers, three wheelers, and related ancillaries, as well as coatings for plastic automotive substrates. This collaboration with Nippon Paint Automotive Coatings, Japan helped the company to commence in-house manufacturing of CED resin and paste, which are vital components for automotive coatings.

Long history of collaborations and acquisitions

Apart from the subsidiaries and JVs, Berger Paints India has a long history of partnerships and technical collaborations with several Indian and global companies.

- 2001: Berger acquired the motors and industrial paint division of ICI India Limited along with a factory at Rishra, West Bengal.
- 2013: It acquired decorative coatings business of Sherwin-Williams in India.
- 2017: It entered into an agreement with Promat International of Belgium for manufacturing and distributing fireproof coatings.
- 2019: It entered into an agreement with the Chugoku Group of Japan for manufacturing and selling marine coatings.
- 2020: It entered into an understanding with VIP Coatings Europe GmbH of Germany for the manufacture of various high-performance coatings and polyuria.

Manufacturing capabilities

Berger Paints India has a total of 29 manufacturing units (including subsidiaries) globally. On its own, the company has 15 manufacturing units located in:

1. Jammu, J&K (3 factories, including 1 of British paints)
2. Sikandrabad, Uttar Pradesh Sandila, Uttar Pradesh
3. Sandila, Uttar Pradesh
4. Howrah, West Bengal
5. Rishra, West Bengal
6. Nalbari, Assam
7. Naltali, Assam
8. Puducherry, Tamil Nadu
9. Hindupur, Andhra Pradesh (2 factories, including 1 of British paints)
10. Goa
11. Jejuri, Maharashtra
12. Taloja, Maharashtra

Another 14 manufacturing facilities of subsidiaries are spread across India, Nepal, Poland and Russia.

Utilization levels

Excluding the newly commissioned plant at Sandila, most other plants are at ~80.0% utilization levels. Sandila plant is at utilization levels of ~50.0% as it was build with a view to last atleast 5 years in terms of capacity headroom.

Expansion plans

In FY23, the company commercialised its fully automated manufacturing plant in Sandila, Uttar Pradesh. The company is in the midst of a 5 year capex plan from FY24 to FY28E, wherein it will spend around Rs 25,000 mn. Of this, Rs 8,000 mn each were planned to be spent in FY24 and FY25E.

By FY27E, the overall capacity is expected to expand by ~34% as the new plants at Panagarh and Orissa will commercialise. Orissa capex will begin in FY26E.

Exhibit 71: Capacity to expand by ~34.0% in the next two years

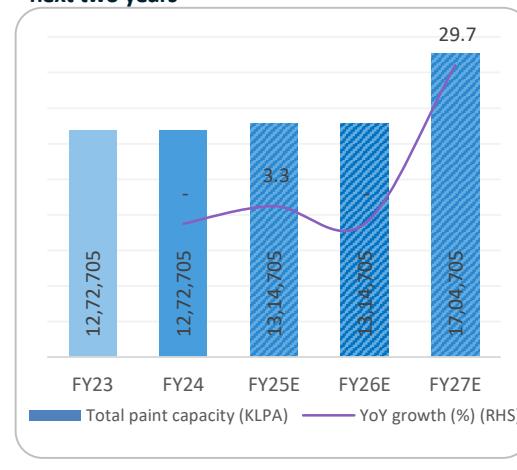


Exhibit 72: Two greenfield and three brownfield expansions in the pipeline

| Location | Capacity addition (KLPA) | Completion timeline | Details |
|--|---------------------------|---------------------|--|
| Panagarh, West Bengal | 42,000 | FY25E | Construction chemical, putty and resin |
| Khordha, Odisha | 3,60,000 – 4,20,000 | FY27E | Paints, coatings, construction chemicals, intermediates including emulsions, resins and related products |
| Vallabh Vidya Nagar, Hindupur and Rishra | NA | NA | Brownfield expansion |
| Total | 4,02,000– 4,62,000 | | |

Source: Company, ACMIL Research

Distribution capabilities

Retail touchpoints

Berger Paints India has presence in ~64,000 retail touchpoints in India with direct presence in ~55,000 dealers.

Berger Paints has a stronger presence in the north and east India. It is now focusing on improving its distribution presence in the western and southern states.

It is also expanding reach with its Berger Exclusive Stores. The company had 616 such stores at the end of Q1FY25, and plans to expand to 1,000+ by end of FY25E.

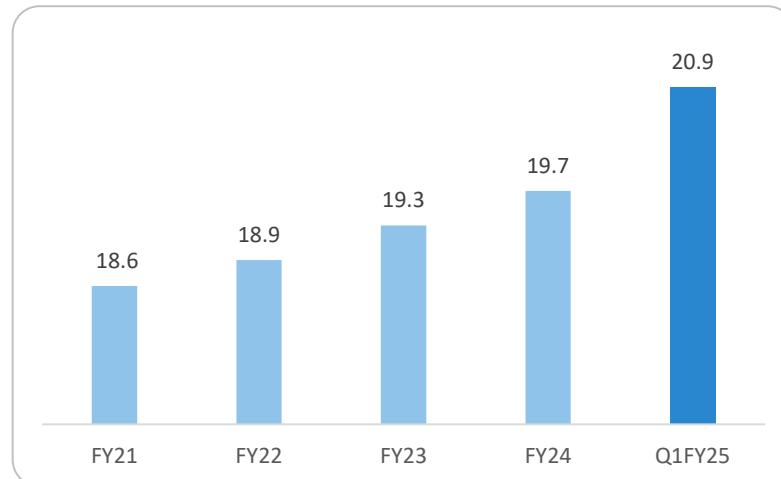
Tinting machines

As of the end of FY24, the company had installed its colour tinting machines, called Colour Bank at ~45,000 locations. The company has been growing its tinting machines by 14.0%-15.0% every year, and plans to continue the trend. Tinting machines as a % of direct dealers is ~90% for the company.

Market share

As per the company's calculation of the market shares in the domestic paints industry, it has seen a steady YoY expansion in its market share in the last few years. The calculation includes standalone revenue for the five top listed paint companies, and Indian subsidiaries of Berger Paints (STP and SBL specialty coatings) and Indigo Paints (Apple Chemie)

Exhibit 73: Market share (%) inching up gradually



Source: Company, ACMIL Research

Investment Rationale

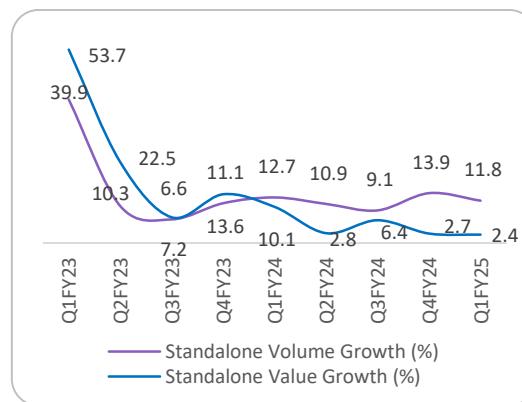
1. Continued to see strong volume growth; plans to grow to Rs 2,00,000 mn in revenue by FY29E

The company has continued to see strong volume growth, while value has been impacted by downtrading and price cuts taken by the industry. As the industry completes a year since the price cuts in Q3FY25E, pricing will also stabilise and the inherent strength of the volume grow will be reflected in revenue growth.

Berger Paints India plans to achieve a revenue of Rs 2,00,000 mn by FY29E. This implies a CAGR of ~12.3% over FY24-FY29E compared to a 13.1% revenue CAGR seen over FY19-FY24. This growth is expected to be driven by strong double-digit volume growth. Strong distribution expansion, new product launches, improving influencer outreach and growth in segments like construction chemicals and waterproofing will aid this growth.

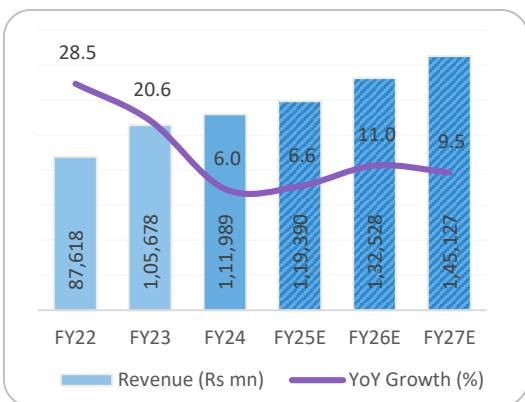
Within the waterproofing segment, the company has introduced several products to bridge gaps of ~25% in its portfolio. With this, the company can see good growth in the segment as these products stabilise in the market.

Exhibit 74: Strong volume performance



Source: Company, ACMIL Research

Exhibit 75: We expect high-single digit to double-digit revenue growth



Source: Company, ACMIL Research

2. Industrial coatings business to see growth

Berger Paints India is the market leader in protective coatings. The company has provided protective coatings for segments such as railway coaches, bridges, wind mills, power plants, metro rail infrastructure, etc. With growth expected to continue in these segments with continued Government spending on highways, railways, ports and airports, Berger Paints India will be a beneficiary.

To tap the growth potential, Berger Paints India has continued to focus on innovation. It has launched products such as SIGMARK Smart (a low cost variant in road marking sector), thermo indicative paint, a new range of high chemical resistance coatings, Quick Drying Polyurethane Matt Finish for infra projects requiring fast turnaround times.

In the automotive segment, it is present in 2-wheelers, CVs and tractors and has also recently entered the bus body and e-rickshaw segments. 2-wheelers has remained the strongest growing segment within automobiles and is expected to benefit further from rural recovery. Even the tractor segment is seeing performance improvement due to a good monsoon this year coupled with good sowing, increase in MSPs and moderating inflation.

In powder coatings, the company has developed coatings that withstand extreme temperatures to the tune of 650-700°C. It also continues to focus on the home appliances segment where the company targets to introduce customized metallic shades for appliances, automotive, metal and furniture Segments.

3. Strong capex plan underway

The company is in the midst of a 5 year capex plan from FY24 to FY28E, wherein it will spend around Rs 25,000 mn. Of this, Rs 8,000 mn each were planned to be spent in FY24 and FY25E. By FY27E, the overall capacity is expected to expand by ~34% as the new plants at Panagarh and Orissa will commercialise. This expansion will support the company's growth plans.

Investment Rationale

4. Continued distribution and tinting machine expansion

In FY23, Berger Paints added 7,100 tinting/ Colorbank machines and has a target to add 8,000 in FY25E. In terms of distribution, the company is focusing on improving its presence in areas where it is weaker, such as western and southern India and urban markets. The company has set up a new team to focus on improving distribution in urban. It has potential to gain further from distribution expansion, as it has gaps in presence in many states.

WPCC business helps to generate leads for the projects business. The company can push its paints where they see interest for WPCC, as the target audience is common.

5. Benefit of cross-selling in the projects business and growth in WPCC

The company has a strong presence in projects business, where it supplies decorative paints as well as protective coatings. In addition, its waterproofing and construction chemicals (WPCC) business via its subsidiary STP Ltd. also helps to generate leads, as the company can push its paints where they see interest for WPCC, as the target audience is common.

The projects business is also expected to benefit from a resurgence in maintenance activities of older buildings. The company has set up a special task force for recognising smaller projects in major urban areas.

In the WPCC segment, the company is targeting to be among the top 3 players in India in FY25E. New products such as Roof Kool and Seal, Bitu Seal DPC and Sealants are helping to see continued growth.

6. Margin outlook is healthy

The management has guided that gross margins will remain at around 40% levels and EBITDA margin at 15%-17%.

The company commercialised its manufacturing facility at Sandila in FY23 with a capacity of 33,000 MT per month across all product categories. At the end of FY24, the capacity utilization levels at this plant reached ~50.0%. With headroom for better utilisation, Berger Paints India will benefit from some margin expansion.

The subsidiaries profitability has also been improving. STP Ltd has benefitted from favourable mix change, with higher share of admixtures and waterproofing.

Berger Paints has also continued to launch new and innovative products such as Roof Kool & Seal sealant, Weathercoat Anti Dustt Cool, Silk Glamor Dazzle, etc. This can help in strengthening margins.

7. Market share gains

As per the company's calculation of the market shares in the domestic paints industry, it has seen a steady YoY expansion in its market share in the last few years. The calculation includes standalone revenue for the five top listed paint companies, and Indian subsidiaries of Berger Paints (STP and SBL specialty coatings) and Indigo Paints (Apple Chemie). The market share in decorative paints has expanded from 18.3% in FY20 to 20.9% in Q1FY25.

Key risks

- 1) As Birla Opus is targeting to be the 2nd largest player in the paints industry, Berger Paints may have to compete aggressively for holding onto its market position. This may lead to pressure on margins or impact on volumes.
- 2) Capacity expansions by most players can lead to over-supply in the market, which may impact pricing and operating costs burden.
- 3) The company along with its peers is susceptible to fluctuations in crude oil prices.

Quarterly performance:

| Y/E March (Rs mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 27,597 | 26,709 | 26,936 | 24,436 | 30,295 | 27,673 | 28,818 | 25,203 | 30,910 |
| Raw Material Cost | 17,731 | 17,281 | 17,591 | 14,702 | 18,231 | 16,294 | 16,981 | 14,954 | 18,585 |
| Employee Cost | 1,460 | 1,604 | 1,481 | 1,547 | 1,669 | 1,902 | 1,815 | 1,744 | 1,922 |
| Other Expenses | 4,357 | 4,185 | 4,367 | 4,500 | 4,828 | 4,740 | 5,222 | 4,996 | 5,179 |
| Total Expenses | 23,549 | 23,070 | 23,439 | 20,749 | 24,728 | 22,937 | 24,018 | 21,694 | 25,686 |
| EBITDA | 4,048 | 3,640 | 3,497 | 3,688 | 5,568 | 4,737 | 4,800 | 3,509 | 5,224 |
| <i>EBITDA (%)</i> | 14.7 | 13.6 | 13.0 | 15.1 | 18.4 | 17.1 | 16.7 | 13.9 | 16.9 |
| Depreciation | 628 | 625 | 644 | 744 | 782 | 829 | 829 | 869 | 872 |
| EBIT | 3,420 | 3,015 | 2,853 | 2,944 | 4,785 | 3,908 | 3,971 | 2,640 | 4,352 |
| <i>EBIT (%)</i> | 12.4 | 11.3 | 10.6 | 12.0 | 15.8 | 14.1 | 13.8 | 10.5 | 14.1 |
| Finance Cost | 163 | 241 | 296 | 293 | 197 | 211 | 196 | 178 | 152 |
| Other Income | 130 | 126 | 109 | 151 | 136 | 153 | 189 | 159 | 363 |
| PBT before Exceptional Items | 3,388 | 2,899 | 2,666 | 2,801 | 4,724 | 3,850 | 3,965 | 2,620 | 4,564 |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share of profits of JV | 35 | 31 | 25 | -222 | 38 | 38 | 14 | 320 | 96 |
| PBT | 3,423 | 2,930 | 2,691 | 2,579 | 4,762 | 3,888 | 3,979 | 2,941 | 4,660 |
| Tax | 886 | 735 | 680 | 719 | 1,213 | 967 | 977 | 714 | 1,120 |
| <i>Tax Rate (%)</i> | 25.9 | 25.1 | 25.2 | 27.9 | 25.5 | 24.9 | 24.6 | 24.3 | 24.0 |
| <i>Minority interest</i> | 280 | 160 | 230 | 320 | 560 | 490 | 510 | 520 | 470 |
| PAT | 2,534 | 2,194 | 2,009 | 1,857 | 3,544 | 2,916 | 2,997 | 2,221 | 3,536 |
| <i>PAT (%)</i> | 9.2 | 8.2 | 7.5 | 7.6 | 11.7 | 10.5 | 10.4 | 8.8 | 11.4 |
| Reported EPS (Rs) (Adjusted for bonus issue) | 2.2 | 1.9 | 1.7 | 1.6 | 2.5 | 2.5 | 2.6 | 1.9 | 3.0 |
| Adj. PAT | 2,534 | 2,194 | 2,009 | 1,857 | 3,544 | 2,916 | 2,997 | 2,221 | 3,536 |
| <i>Adj. PAT (%)</i> | 9.2 | 8.2 | 7.5 | 7.6 | 11.7 | 10.5 | 10.4 | 8.8 | 11.4 |
| Adj. EPS (Rs) | 2.2 | 1.9 | 1.7 | 1.6 | 3.0 | 2.5 | 2.6 | 1.9 | 3.0 |
| No. of Shares (adj. for bonus issue) | 1,166 | 1,166 | 1,166 | 1,166 | 1,166 | 1,166 | 1,166 | 1,166 | 1,166 |

Sources: Company, ACMIL research

| YoY Growth (%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 53.4 | 20.0 | 5.6 | 11.7 | 9.8 | 3.6 | 7.0 | 3.1 | 2.0 |
| EBITDA | 69.7 | 2.8 | (10.8) | 6.4 | 37.5 | 30.1 | 37.3 | (4.8) | (6.2) |
| Adj. PAT | 80.3 | 0.2 | (20.5) | (15.8) | 39.8 | 33.0 | 49.1 | 19.6 | (0.2) |
| Adj. EPS | 80.3 | 0.2 | (20.5) | (15.8) | 39.8 | 32.9 | 49.1 | 19.6 | (0.2) |

Sources: Company, ACMIL research

| QoQ Growth(%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 26.2 | (3.2) | 0.8 | (9.3) | 24.0 | (8.7) | 4.1 | (12.5) | 22.6 |
| EBITDA | 16.9 | (10.1) | (3.9) | 5.5 | 51.0 | (14.9) | 1.3 | (26.9) | 48.9 |
| Adj. PAT | 14.9 | (13.4) | (8.4) | (7.6) | 90.8 | (17.7) | 2.7 | (25.9) | 59.2 |
| Adj. EPS | 14.9 | (13.4) | (8.4) | (7.6) | 90.8 | (17.7) | 2.7 | (25.9) | 59.2 |

Sources: Company, ACMIL research

Q1FY25 performance highlights

| Y/E March (Rs in mn) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | Consensus Est. | Var% |
|---|---------------|---------------|--------------|---------------|-------------|----------------|--------------|
| Net Revenue | 30,910 | 30,295 | 2.0 | 25,203 | 22.6 | 31,318 | (1.3) |
| Expenses: | | | | | | | |
| Total Raw Material Cost | 18,585 | 18,231 | 1.9 | 14,954 | 24.3 | | |
| Employee Cost | 1,922 | 1,669 | 15.2 | 1,744 | 10.2 | | |
| Other Expenses | 5,179 | 4,828 | 7.3 | 4,996 | 3.7 | | |
| Total Operating Cost | 25,686 | 24,728 | 3.9 | 21,694 | 18.4 | | |
| EBITDA | 5,224 | 5,568 | (6.2) | 3,509 | 48.9 | 5,490 | (4.8) |
| <i>EBITDA (%)</i> | 16.9 | 18.4 | -148 bps | 13.9 | 298 bps | | |
| Depreciation | 872 | 782 | 11.5 | 869 | 0.4 | | |
| EBIT | 4,352 | 4,785 | (9.1) | 2,640 | 64.9 | | |
| Other Income | 363 | 136 | 167.5 | 159 | 128.8 | | |
| Interest | 152 | 197 | (23.0) | 178 | (15.0) | | |
| Extraordinary Items | 0 | 0 | NA | 0 | NA | | |
| Share of Profit/ (Loss) of joint ventures | 96 | 38 | NA | 320 | NA | | |
| PBT | 4,660 | 4,762 | (2.1) | 2,941 | 58.5 | | |
| Tax | 1,120 | 1,213 | (7.7) | 714 | 56.7 | | |
| <i>Effective Tax Rate (%)</i> | 24.0 | 25.5 | -144 bps | 24.3 | -27 bps | | |
| <i>Minority interest</i> | 4.7 | 5.6 | | 5.2 | | | |
| RPAT | 3,536 | 3,544 | (0.2) | 2,221 | 59.2 | | |
| APAT | 3,536 | 3,544 | (0.2) | 2,221 | 59.2 | 3,438 | 2.8 |
| <i>APAT (%)</i> | 11.4 | 11.7 | -26 bps | 8.8 | 263 bps | | |
| <i>Reported EPS (diluted) (Rs)</i> | 3.0 | 3.0 | (0.2) | 1.9 | 59.6 | | |
| Adj. EPS (Rs) | 3.0 | 3.0 | (0.2) | 1.9 | 59.2 | | |

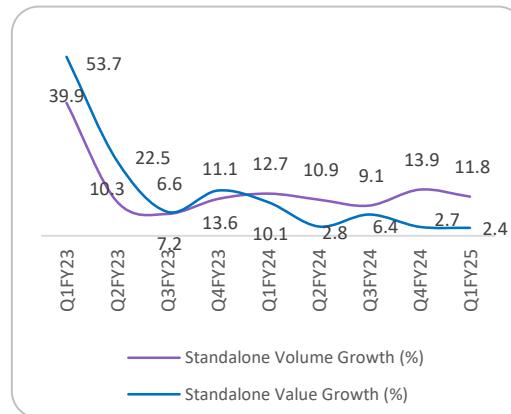
Sources: Company, Bloomberg, ACMIL research

Berger Paints India has seen a lower than estimated operating performance in Q1FY25. However, net profit was stronger than estimated. Consolidated revenue grew by 2.0% YoY to Rs 30,910 mn. This was 1.3% lower than the consensus estimate. However, the company continued to see YoY growth as compared to a decline in revenue seen for Asian Paints and Kansai Nerolac. EBITDA margin contracted by 148 bps YoY to 16.9%. EBITDA was lower than estimated by 4.8%. Net profit was almost flat YoY at Rs 3,536 mn. It was 2.8% higher than street estimate despite a miss at operating profit levels, owing to strong increase in other income, lower interest expense and a lower effective tax rate YoY.

- Standalone business performance:** In the standalone business, volumes grew by 11.8% YoY while the value growth was 2.4% YoY. Cumulative price reduction of 4% taken in H2FY24, strong traction in low-value products and weak sales of luxury products impacted the value growth.
- Industrial paints performance:** Protective coatings saw some slowdown during general elections, but has seen improvement June onwards. Automotive and general coatings business for the company was impacted due to subdued growth in the commercial vehicles segment. Powder coatings business saw a steady growth.
- Margin contraction on a YoY basis:** Operating profit was lower YoY, impacted by benefit of low-cost inventory in Q1FY24, inflation in RM prices and increase in advertising spends.
- Market share gains:** Berger Paints India has gained the highest market share among listed players, on both YoY and QoQ basis. The management expects to expand its market share by 0.5% to 0.6% in FY25E.
- Pricing actions:** The company undertook price increase on differentiated products in Q1FY25. Two more price hikes have been announced – one in July and another planned in August. This will offset the increase in raw material prices and is expected to lead to marginal improvement in operating margin in Q2FY25E.
- Network expansion:** The company continued to expand its distribution presence aggressively. In the quarter, it added over 1,900 retail touchpoints and over 1,800 colourbank machines. For FY25E, the company targets to add 8,000 colourbank machines. The company has also set up a separate team to improve presence in urban areas of western and southern India, where it has a weak position.
- Subsidiary performance:** Bolix S.A, Poland continued to see growth and profitability improvement. On the other hand, BJC Nepal continued subdued topline and profitability performance. STP Ltd. and SBL Specialty Coatings Ltd. saw a decline in profits due to adverse mix.
- Performance of joint ventures:** Berger Becker Coatings saw good topline growth but decline in profitability due to price cuts. Berger Nippon Paint Automotive Coatings Pvt. Ltd. saw good growth and profitability owing to good performance of passenger vehicles and lower raw material prices.
- View on new entrant in the market:** The management believes it is still premature to see any impact on the paints market after the entry of Birla Opus. At present, Birla Opus has only done initial placement of products at the retail points; rotation of the inventory is more important. Extra grammage that this player was offering was stopped recently in some of the markets. Birla Opus is giving extra payouts to painters, instead.
- Growth outlook:** The management has seen some improvement in demand in Q2FY25 so far, but it is not substantial. It expects growth to improve in the remaining quarters of the year, with the best to come in Q4FY25E.

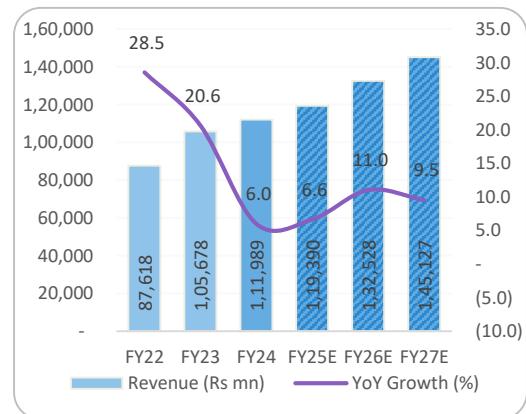
Story in charts:

Exhibit 76: Standalone revenue growth in single digits for 5 quarters, while volume growth has been strong



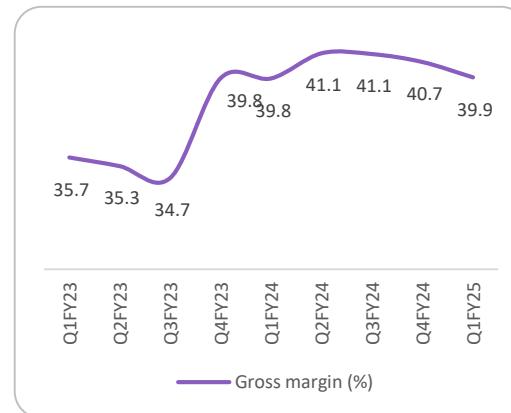
Source: Company, ACMIL Research

Exhibit 77: Volume growth continues to be strong, while value growth impacted by price cuts and mix deterioration



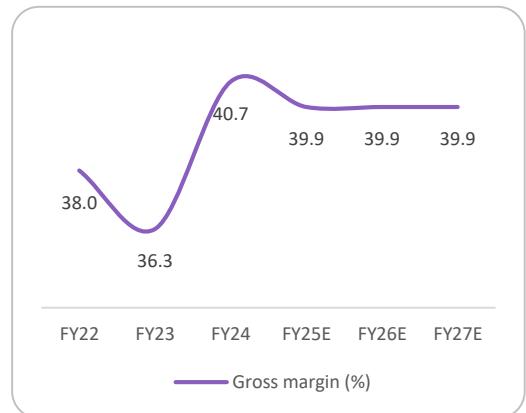
Source: Company, ACMIL Research

Exhibit 78: Gross margin near higher end of the guidance band of 38.0% to 40.0%



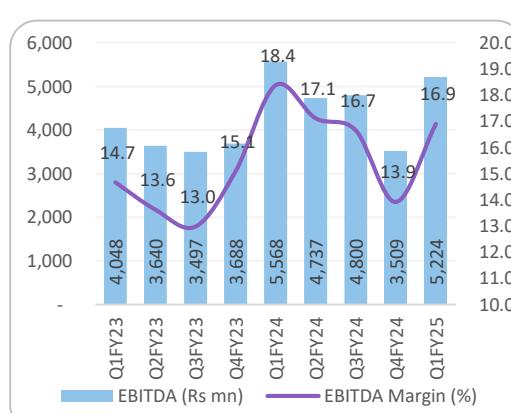
Source: Company, ACMIL Research

Exhibit 79: We expect gross margin to stabilise around 40.3%-40.4%



Source: Company, ACMIL Research

Exhibit 80: EBITDA margin near higher end of the guidance band of 15.0% to 17.0%



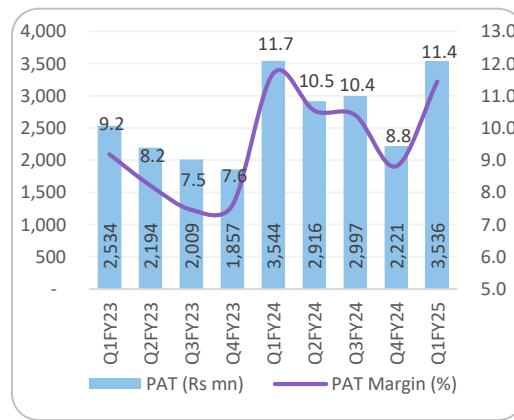
Source: Company, ACMIL Research

Exhibit 81: We expect EBITDA margins to stay around the middle of the target band, as the company would focus on market share



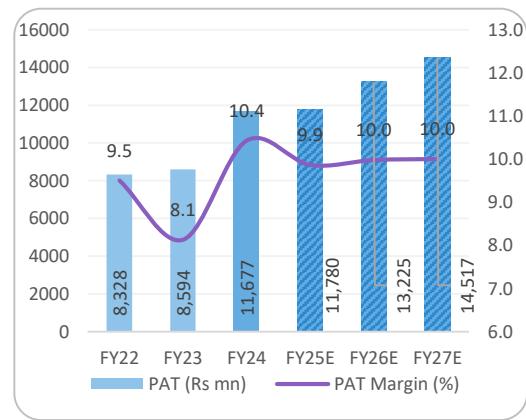
Source: Company, ACMIL Research

Exhibit 82: PAT margin inched up in FY24 due to improved operating profits



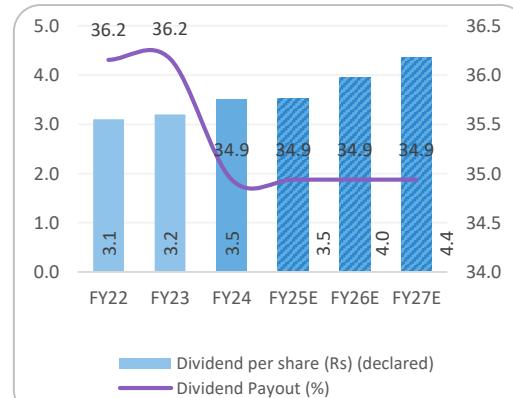
Source: Company, ACMIL Research

Exhibit 83: PAT margin likely to be range bound, tracking similar to operating margins



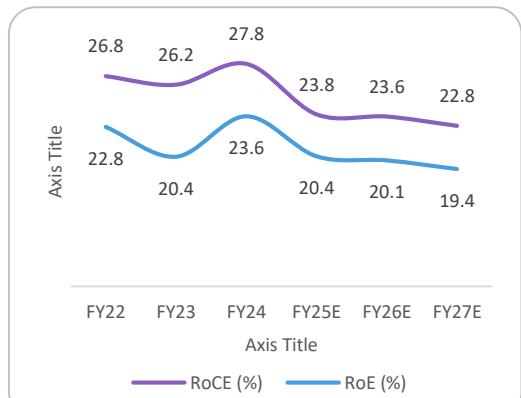
Source: Company, ACMIL Research

Exhibit 84: We expect dividend payout to be steady



Source: Company, ACMIL Research

Exhibit 85: Pressure on return ratios due to capex and higher cash on books



Source: Company, ACMIL Research

Summary of projections

While revenue growth will be slightly lower in FY25E (6.6%), it will see an uptick from H2FY25E, and inch up in the two years ahead to 11.0% / 9.5%, respectively. This growth will be supported by company's focus on distribution expansion, tapping growth in projects business, launching new innovative products in paints and WPCC and growth in infrastructure helping industrial paints segment.

We expect EBITDA margin to be around the mid-level of the target band of 15.0%-17.0%, as the company will focus more on gaining market share to tackle increased competition.

We expect Revenue/ EBITDA/ Adj. PAT CAGR of 9.0%/7.4%/7.5%, respectively over FY24-FY27E, as the PAT margin will track movement in EBITDA margin.

Valuation and View:

The company, being the 2nd largest decorative paints company in India, will also benefit from the industry tailwinds. It is expanding its distribution aggressively, which is helping steady market share gains. As 20% of company's revenues are from the industrial paints segment, it will benefit from the infrastructure growth being witnessed in the country.

For Berger Paints, we expect Revenue/ EBITDA/ Adj. PAT CAGR of 9.0%/7.4%/7.5%, respectively over FY24-FY27E. The stock is currently trading at 53.4x/47.5x/43.3x its FY25E/FY26E/FY27E Adj. EPS. For the last 5 years, the stock traded at an average PE of 68x while for the last 2 years it traded at 54x. The higher competitive intensity and raw material cost fluctuation has weighed on the industry valuation multiples.

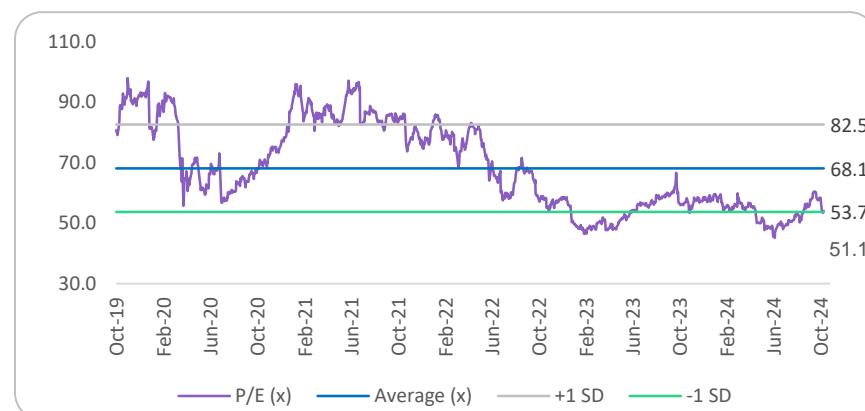
With strong volume growth continuing for Berger Paints along with pricing stability from H2FY25E, growth potential in industrial and projects business, and strengthening distribution network, we may see the valuation multiples going closer to historical averages. We value the company based on 53x its Sep-26E EPS of Rs 12.0, arriving at a price target of Rs 635. This implies an upside potential of 17.7%, hence we assign a 'Buy' rating.

Exhibit 86: Valuation Summary

| Valuation | Rs |
|-------------------------------------|-------------|
| Adj. EPS (4 quarter ending Sep-26E) | 12.0 |
| P/E (x) | 53 |
| Target price | 635 |
| CMP | 539 |
| Upside potential (%) | 17.7 |
| Rating | Buy |

Source: Company, ACMIL Research

Exhibit 87: 1-year forward P/E



Sources: Company, ACMIL research

Financial (Consolidated)

Income Statement

| YE March (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|--------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Net Sales | 87,618 | 1,05,678 | 1,11,989 | 1,19,390 | 1,32,528 |
| Growth (%) | 28.5 | 20.6 | 6.0 | 6.6 | 11.0 |
| RM cost | 54,291 | 67,305 | 66,460 | 71,742 | 79,637 |
| Employee cost | 5,431 | 6,092 | 7,130 | 7,660 | 8,354 |
| Other expenses | 14,585 | 17,409 | 19,786 | 21,224 | 23,467 |
| Total expenses | 74,307 | 90,806 | 93,376 | 1,00,626 | 1,11,458 |
| EBITDA | 13,311 | 14,872 | 18,613 | 18,764 | 21,071 |
| Growth (%) | 12.0 | 11.7 | 25.2 | 0.8 | 12.3 |
| EBITDA margin (%) | 15.2 | 14.1 | 16.6 | 15.7 | 15.9 |
| Depreciation | 2,265 | 2,640 | 3,309 | 3,575 | 4,076 |
| EBIT | 11,046 | 12,232 | 15,304 | 15,188 | 16,994 |
| EBIT margin (%) | 12.6 | 11.6 | 13.7 | 12.7 | 12.8 |
| Other income | 646 | 516 | 637 | 809 | 982 |
| Interest expense | 507 | 992 | 783 | 607 | 607 |
| PBT before exception items | 11,184 | 11,755 | 15,159 | 15,391 | 17,369 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| Share of profit of associates and JV | 39 | -132 | 410 | 313 | 347 |
| PBT | 11,223 | 11,623 | 15,569 | 15,703 | 17,716 |
| Tax | 2,893 | 3,019 | 3,871 | 3,902 | 4,465 |
| Effective tax rate | 25.8 | 26.0 | 24.9 | 24.9 | 25.2 |
| Minority interest | 1 | 10 | 21 | 21 | 27 |
| Rep. PAT | 8,328 | 8,594 | 11,677 | 11,780 | 13,225 |
| Rep. PAT Growth (%) | 15.7 | 3.2 | 35.9 | 0.9 | 12.3 |
| Rep. PAT (%) | 9.5 | 8.1 | 10.4 | 9.9 | 10.0 |
| Adj. PAT | 8,328 | 8,594 | 11,677 | 11,780 | 13,225 |
| Adj. PAT Growth (%) | 15.7 | 3.2 | 35.9 | 0.9 | 12.3 |
| Adj. PAT (%) | 9.5 | 8.1 | 10.4 | 9.9 | 10.0 |

Source: Company, ACMIL Research

Balance Sheet

| YE March (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------|---------------|---------------|---------------|---------------|-----------------|
| Equity share capital | 971 | 971 | 1,166 | 1,166 | 1,166 |
| Reserves & surplus | 38,299 | 43,970 | 52,624 | 60,288 | 68,892 |
| Non Controlling interest | 72 | 81 | 102 | 102 | 102 |
| Net Worth | 39,342 | 45,023 | 53,892 | 61,556 | 70,160 |
| Long term borrowings | 98 | 78 | 60 | 60 | 60 |
| Lease Liabilities | 2,705 | 3,346 | 4,423 | 4,423 | 4,423 |
| Other financial liabilities | 777 | 761 | 724 | 724 | 724 |
| Other non-current liabilities | 688 | 719 | 964 | 964 | 964 |
| Non current liabilities | 4,268 | 4,904 | 6,170 | 6,170 | 6,170 |
| Short term borrowings | 6,581 | 7,599 | 1,994 | 1,994 | 1,994 |
| Lease Liabilities | 751 | 867 | 1,056 | 1,056 | 1,056 |
| Trade payables | 18,029 | 17,657 | 16,792 | 18,127 | 20,121 |
| Other financial liabilities | 1,584 | 1,529 | 1,507 | 1,507 | 1,507 |
| Other current liabilities | 1,572 | 2,094 | 2,276 | 2,276 | 2,276 |
| Current liabilities | 28,517 | 29,746 | 23,625 | 24,960 | 26,954 |
| Equity & liabilities | 72,127 | 79,672 | 83,687 | 92,685 | 1,03,284 |
| Property, plant & equipment | 14,734 | 25,361 | 25,159 | 24,516 | 26,403 |
| CWIP | 6,055 | 1,102 | 1,873 | 1,873 | 1,873 |
| Intangible assets | 2,906 | 2,978 | 3,231 | 3,231 | 3,231 |
| RoU assets | 4,228 | 4,980 | 6,623 | 6,623 | 6,623 |
| Financial assets | 895 | 1,278 | 1,196 | 1,196 | 1,196 |
| Investments in JV | 1,471 | 1,302 | 1,692 | 1,692 | 1,692 |
| Other non current assets | 1,264 | 1,027 | 732 | 732 | 732 |
| Non current assets | 31,552 | 38,027 | 40,506 | 39,863 | 41,750 |
| Inventories | 23,158 | 23,191 | 21,797 | 23,529 | 26,118 |
| Investments | 873 | 530 | 859 | 1,359 | 1,859 |
| Trade receivables | 10,537 | 12,431 | 13,020 | 13,881 | 15,408 |
| Cash | 1,033 | 1,162 | 2,403 | 8,952 | 13,047 |
| Bank balances | 2,097 | 1,285 | 2,104 | 2,104 | 2,104 |
| Other financial assets | 667 | 566 | 1,145 | 1,145 | 1,145 |
| Other current assets | 2,210 | 2,480 | 1,853 | 1,853 | 1,853 |
| Current assets | 40,574 | 41,645 | 43,180 | 52,822 | 61,534 |
| Total assets | 72,127 | 79,672 | 83,687 | 92,685 | 1,03,284 |

Source: Company, ACMIL Research

Cash Flow

| YE March (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|--------------------------------|----------------|----------------|-----------------|----------------|----------------|
| PBT | 11,223 | 11,623 | 15,569 | 15,703 | 17,716 |
| Add: Depreciation | 2,265 | 2,640 | 3,309 | 3,575 | 4,076 |
| Add: Net Interest | 306 | 834 | 527 | (202) | (375) |
| Income/Expense | (160) | 331 | (311) | (313) | (347) |
| Other adjustments | (4,976) | (2,594) | 302 | (1,258) | (2,122) |
| Chg in working cap | (2,992) | (3,078) | (3,486) | (3,902) | (4,465) |
| Tax | (5,665) | (9,756) | (15,911) | (13,603) | (14,484) |
| Net Operating Cash flow | (7,596) | (7,439) | (2,705) | (2,932) | (5,964) |
| Capex | (1,931) | 2,317 | 13,205 | 10,671 | 8,520 |
| Free Cash Flow | (5,213) | (6,003) | (3,981) | (2,310) | (5,135) |
| Investments | 2,131 | 1,264 | (1,451) | (187) | (153) |
| Interest/ dividend income | 252 | 172 | 176 | 809 | 982 |
| Investing Cash flow | (5,213) | (6,003) | (3,981) | (2,310) | (5,135) |
| Equity share capital | 0 | 0 | 0 | 0 | 0 |
| Debt | 2,166 | (3) | (7,221) | 0 | 0 |
| Dividend paid | (2,720) | (3,011) | (3,109) | (4,116) | (4,621) |
| Interest paid | (228) | (615) | (359) | (607) | (607) |
| Others | - | - | - | (21) | (27) |
| Financing Cash flow | (781) | (3,629) | (10,689) | (4,744) | (5,254) |
| Opening cash position | 1,362 | 1,033 | 1,162 | 2,403 | 8,952 |
| Net chg in cash | (329) | 125 | 1,241 | 6,549 | 4,095 |
| Exchange rate fluctuation | 0 | 4 | (0) | 0 | 0 |
| Closing cash position | 1,033 | 1,162 | 2,403 | 8,952 | 13,047 |

Source: Company, ACMIL Research

Key Ratios

| YE March (Rs) | FY22 | FY23 | FY24 | FY25E | FY26E |
|--------------------------|------|------|------|-------|-------|
| EPS | 7.1 | 7.4 | 10.0 | 10.1 | 11.3 |
| CEPS | 4.9 | 8.4 | 13.6 | 11.7 | 12.4 |
| BVPS | 33.8 | 38.6 | 46.2 | 52.8 | 60.2 |
| DPS declared | 3.1 | 3.2 | 3.5 | 3.5 | 4.0 |
| Valuations (x) | | | | | |
| P/E | 73.1 | 53.8 | 53.4 | 47.5 | 43.3 |
| P/BV | 33.8 | 33.6 | 29.9 | 27.3 | 24.9 |
| EV/Sales | 6.0 | 5.6 | 5.3 | 4.8 | 4.3 |
| EV/EBITDA | 42.3 | 33.8 | 33.6 | 29.9 | 27.3 |
| Dividend Yield (%) | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Return Ratio (%) | | | | | |
| RoCE | 26.8 | 26.2 | 27.8 | 23.8 | 23.6 |
| RoE | 22.8 | 20.4 | 23.6 | 20.4 | 20.1 |
| Gearing Ratio (x) | | | | | |
| Net Debt/Equity | 0.1x | 0.2x | 0.1x | 0.0x | -0.1x |
| Net Debt/EBITDA | 0.3x | 0.6x | 0.3x | 0.0x | -0.3x |
| Working Cap Cycle (days) | 78 | 73 | 70 | 70 | 70 |
| Profitability (%) | | | | | |
| EBITDA Margin | 15.2 | 14.1 | 16.6 | 15.7 | 15.9 |
| EBIT Margin | 12.6 | 11.6 | 13.7 | 12.7 | 12.8 |
| Adj. PAT Margin | 9.5 | 8.1 | 10.4 | 9.9 | 10.0 |

Source: Company, ACMIL Research

Kansai Nerolac Paints Ltd. (KNPL)

Strong presence in industrial business and rural recovery to support growth

We initiate coverage on Kansai Nerolac Paints with a BUY rating and a price target of Rs 365, as we like its growth potential in the industrial paints segment, margin improvement from premiumisation across both decorative and industrial businesses and rural recovery supporting growth in the decorative paints segment.

Beneficiary of expected recovery in rural demand and distribution expansion

Kansai Nerolac has a higher share of business from rural as compared to urban. In the last six months, the company has seen some improvement in rural demand in the B2B business, which generally precedes demand improvement in the B2C business. Moderation in inflation, a good monsoon season, increase in MSPs to farmers, Government's focus on employment and rural development will contribute to recovery in demand in rural India. It is also expanding its presence in T1 cities as well as western and southern India, where it has a weaker presence.

Diversification benefit due to industrial paints

The industrial business is driven by technology, technical expertise and customer relationships. With a very strong market share of ~58.0%–60.0% in the automotive coatings segment, the company is deeply entrenched in the sector. In the non-automotive industrial business, the company's customer base is spread across a wide spectrum of industries. As the impact of new competition will be felt by the decorative paints segment, the industrial paints segment will lend stability in 45.0% of Kansai Nerolac's business.

A positive outlook for the auto industry, infrastructure-linked industries and KNPL's entry in new segments to aid growth

As the consumption story gains traction with a good monsoon progression this year along with moderating inflation, volume growth will continue for 2-wheelers, 3-wheelers and PVs. In the last couple of years, the company has entered into several new applications in the automotive coatings business, leading to an increase in the addressable market. The Government's focus on infrastructure development and strong growth in the consumer durables industry will contribute to growth in KNPL's 'high performance coating' and 'powder coating' divisions.

Valuation & Outlook

KNPL has a strong diversified business, with revenue split almost equally between decorative and industrial paints. The company is focusing on growth and premiumisation in both segments. The decorative paints segment will benefit from expanding distribution in T1 towns and west+south India, growth in projects business and premiumisation. Higher presence in rural India will also benefit the company as rural recovery progresses. On the industrial paints side, the company is benefiting from the infrastructure growth story. It has exited low margin industrial businesses, and is working on growing its business in new segments.

We expect Revenue/ EBITDA/ Adj. PAT CAGR of 8.9%/ 12.0%/ 13.3% over FY24-FY27E. The stock is trading at 30.1/25.8/22.9x its FY25E/FY26E/FY27E Adj. EPS. We value the company at 31x its Sep-26E Adj. EPS of Rs 11.7, arriving at a price target of Rs 365. With an upside of 28.8%, we assign a BUY rating to the shares of Kansai Nerolac Ltd. Key risks to our assumptions are higher competitive intensity impacting growth, slowdown in rural recovery and growth concerns in the auto industry.

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------|--------|--------|--------|--------|----------|
| Revenue | 75,427 | 78,014 | 83,255 | 91,580 | 1,00,738 |
| Growth (%) | 18.4 | 3.4 | 6.7 | 10.0 | 10.0 |
| EBITDA | 8,180 | 10,278 | 11,080 | 12,863 | 14,451 |
| EBITDA (%) | 10.8 | 13.2 | 13.3 | 14.0 | 14.3 |
| Adj. PAT | 4,736 | 6,874 | 7,606 | 8,877 | 10,009 |
| Adj. EPS | 5.9 | 8.5 | 9.4 | 11.0 | 12.4 |
| Adj. EPS Growth (%) | 32.0 | 45.1 | 10.7 | 16.7 | 12.7 |
| ROE (%) | 10.9 | 13.5 | 13.1 | 14.0 | 14.5 |
| ROCE (%) | 13.9 | 15.7 | 14.7 | 16.1 | 16.9 |
| P/E (x) | 48.4 | 33.3 | 30.1 | 25.8 | 22.9 |

Source: Company, ACMIL Research

ACMIL Institutional Research | Initiating coverage- Paints sector

BUY

Target: ₹365

Key Data

| | |
|--------------------------|---------|
| Bloomberg code: | KNPL IN |
| Target price (₹) | 365 |
| CMP (₹) | 283 |
| Upside/ (Downside) (%) | 28.8 |
| Rating: | BUY |
| Shares outstanding (mn): | 808 |
| Mcap (Rs bn): | 228 |
| 52-week H/L (Rs): | 357/252 |

Price Performance (%)

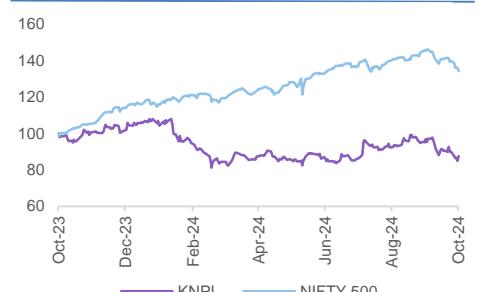
| | |
|-----------|-------|
| 1 month | (7.4) |
| 3 months | 2.3 |
| 12 months | (9.8) |

Shareholding Pattern (%)

| | Mar'24 | Jun'24 | Sep'24 |
|--------------|--------|--------|--------|
| Promoter | 75.0 | 75.0 | 75.0 |
| FII | 4.7 | 5.1 | 5.6 |
| DII | 11.6 | 10.7 | 10.3 |
| Public/other | 8.7 | 9.2 | 9.1 |
| Pledge | - | - | - |

Sources: BSE

Performance vs. Nifty 500



Sources: BSE

Analyst

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Company Overview

#3 player in the domestic decorative paints market.
#1 player in auto coatings.
#1 player in powder coatings.

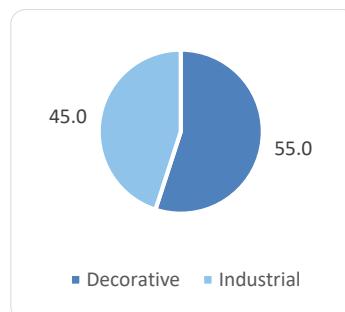
- Kansai Nerolac Paints Limited (KNPL) was established in 1920 in Mumbai. Initially named as Gahagan Paints and Varnish, it underwent several changes, before the current name was adopted in 2006.
- The company's association with Kansai Paints, Japan, started with a technical collaboration in 1983. Later, in 1986, Kansai Paints acquired a stake in the company [then named as Goodlass Nerolac Paints Pvt Ltd (India)]. In 1999, KNPL became a subsidiary of Kansai Paints and at present, the promoter shareholding stands at 75.0%.
- The company operates in India, Nepal, Sri Lanka and Bangladesh.
- KNPL has products catering to home interior paints, exterior paints, mobility, appliances and infrastructure.
- It is the third-largest player in India in the decorative paints segment and the leader in the automotive coatings and powder coatings segments. The company also holds a significant market share in performance coatings.

Business Segments

Kansai Nerolac's business is split 55:45 between Decorative and Industrial paints segments. This split has remained broadly stable in the last several years, with +/- 2%-3% deviation at times.

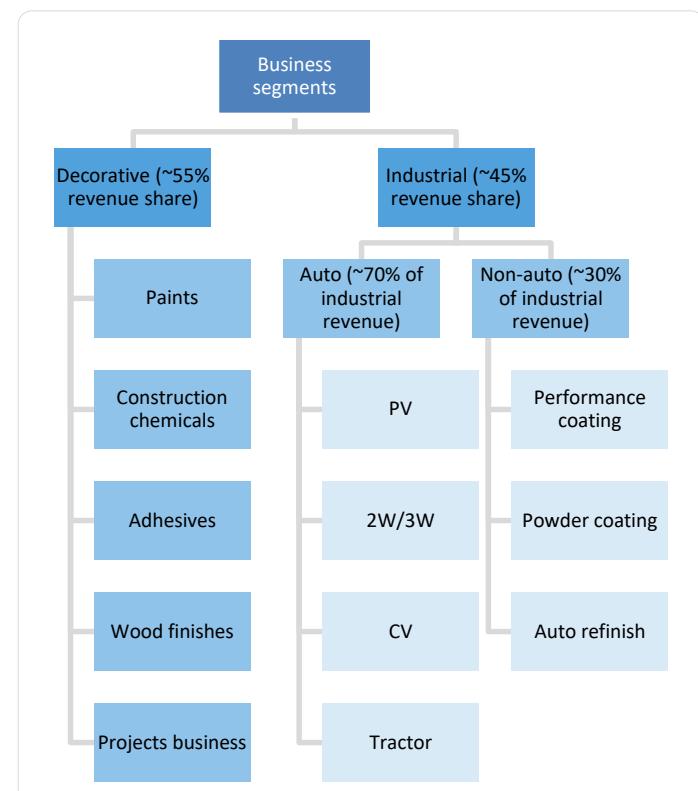
The business is further divided into sub-segments based on the end-user applications.

Exhibit 88: Revenue split (%) has been largely steady in several years



Source: Company, ACMIL Research

Exhibit 89: Division of business into decorative and industrial applications



Source: Company, ACMIL Research

1. Decorative business

~Around 55% of the company's revenue comes from the decorative segment. This segment includes decorative paints for B2C customers (interior and exterior), projects business and new businesses such as adhesives, wood coatings and construction chemicals. It also includes the NxtGen painting service.

a. Interior and exterior paints

- For paints, the company has 2 distinct brands – Nerolac and Soldier. While Nerolac paints are available across the Economy/ Popular, Premium and Luxury ranges, Soldier is a value-for-money brand.
- Under its Paint+ brand, the company offers differentiated products at differentiated price points to address customer needs. These products offer additional functional benefits. These products include Excel Mica Marble Stretch & Sheen, Excel Everlast 12, Beauty Gold Washable, Nerolac Perma Damp Lock, No Damp+, Nerolac Perma Crystal Seal, Impressions Kashmir and Beauty Little Master Sheen. The Paint+ products facilitate growth in the premium segment.
- The Paint+ platform was launched two years ago and now contributes closer to high-single-digit share of the decorative revenue.

The Paint+ category, catering to differentiated products, was launched two years ago and now contributes closer to high-single-digit share of the decorative revenue.

b. Construction Chemicals

- KNPL entered this business by acquiring 100% stake in Perma Construction Aids Private Ltd. in FY20. The company sells these products under the brand name 'Nerolac Perma'.
- Product offering under this segment includes liquid membranes, tile adhesives, admixtures, general waterproofing & repairs, crack fillers, structural repairs (micro concrete, RMP), waterproof putty and industrial grouts.
- To deepen its foray in the business, the company is focusing on expanding its market presence by increasing contractor reach and expanding its range of products.

c. Adhesives

- The adhesives business is housed under KNPL's wholly owned subsidiary – Nerofix India. Kansai Nerolac entered into this business in FY20, by setting up a JV with Polygel Industries, with a 60.0% shareholding. Later in FY23, KNPL acquired the remaining 40.0% stake in Nerofix.
- Kansai Nerolac has been working on adding new products to its portfolio, increasing marketing efforts and increasing engagement with carpenters. In FY24, the company launched the Nerofix premium carpenter annual scheme to boost retention of carpenters.

d. Wood Finishes

- KNPL increased its focus on wood finishes business about 4–5 years ago. In order to enter the high-end Italian wood finish segment, the company, in FY20, signed an agreement with the major Italian player ICRO Coatings in FY20. In FY24, the company expanded into premium wood finishes.
- KNPL offers products, such as Italian 2K PU, Gloria 2K PU, ICRO range, TermiProteck and Wonderwood 111 Thinner.
- In the polyurethane (PU) market, the company has a range of Bio Coatings. It replicates the characteristics of PU but replaces resins and petrochemical solvents with bio-solvents and resins of vegetable origin. This range offers favorable features, such as consistency in quality, cold liquid resistance, anti-yellowing and reduces CO2 emission substantially.
- With an already strong position in North India, the company expanded into the other regions of India in FY24.

KNPL is working on expanding its reach and product offerings in segments such as construction chemicals, adhesives and wood finishes.

KNPL is under-indexed on the projects business compared to the industry, and focusing on further expansion in the segment

e. Projects business

- Kansai Nerolac has strengthened its presence in the projects business in the last two years. It is now present across 75 towns, up from 55 in FY23. It is working on further expanding its reach, strengthening the project team and building a pipeline of projects.
- The company has been a part of marquee projects, such as Ayodhya Dham, Wankhede Stadium, IIT Roorkee, Lucknow International Airport, Yamuna Expressway and India International Conventional Centre in the year gone by.
- A separate range of products has also been launched specifically for the projects business. This includes Nerolac Perma Neroshield for waterproofing and Super Series product range.
- Revenue from the projects business contributes ~8.0%–9.0% of the company's decorative revenue. This contribution is lower for KNPL as compared to the industry level of ~12.0%–13.0%.

Exhibit 90: Key products in decorative paints segment

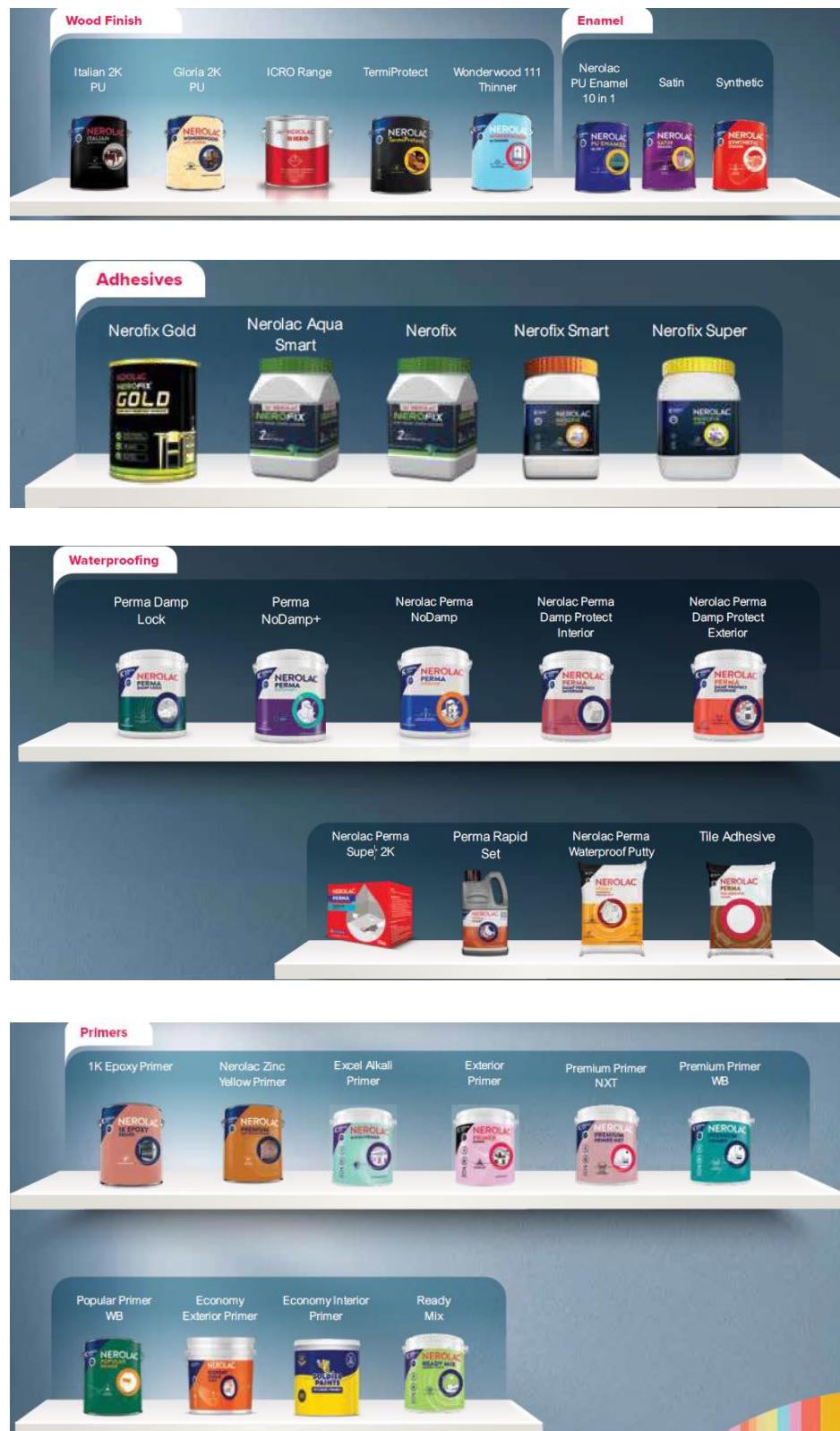


Source: Company, ACMIL Research

Thematic report- Paints

29th October 2024

KANSAI NEROLAC PAINTS Ltd (KNPL)



Source: Company, ACMIL Research

2. Industrial business

Around 45% of the company's revenue comes from the industrial segment, of which ~70% comes from Automotive and the rest from the non-automotive business.

a. Automotive coatings

- Kansai Nerolac is a market leader in the automotive coatings segment, with a majority market share of ~58.0%–60.0%. It has a diversified presence across passenger vehicles, two-wheelers, three-wheelers, tractors, commercial, electric vehicles, wheel and auto ancillaries. This has helped the company to maintain its leadership position.
- This segment contributes ~70.0% to the company's industrial business and ~32.0% to the overall revenue, making it an important revenue driver.
- About 55.0%–60.0% of the automotive revenue comes from Japanese OEMs, a benefit of the company's Japanese parentage.

Automotive coatings is a key revenue segment for KNPL, contributing ~32.0% to the company's revenue. KNPL has almost 60% market share in automotive coatings.

b. Non-automotive coatings

- The non-automotive business forms ~30.0% of the industrial revenues and ~14.0% of total revenue for Kansai Nerolac. The growth in this business is driven by infrastructure growth. This business can be further segmented into:

i. Performance coatings (liquid)

- General industrial and high performance coatings are used in industries, such as petroleum, metal industries, chemicals and fertilizers, infrastructure, cement industry, railways, pipes pre-coated steel, bridges, drums and barrels, cylinders, electricals, helmets, pre-engineered buildings and construction equipment.

ii. Powder coatings

- The use case of powder coatings is for application on consumer durables, such as refrigerators, washing machines, air-conditioners, light fixtures and electricals along with auto components, pipes, rebar steel and architectural industry. KNPL is a market leader in this segment, with more than 40% market share.

iii. Auto refinish

- This segment relates to the aftermarket repainting and touch-up for vehicles across segments, such as passenger vehicles, commercial vehicles, 2-wheelers, 3-wheelers, bus body, auto parts and furniture.

Within non-automotive industrial coatings, KNPL is a market leader in powder coatings. It is now focusing on improving share in the liquid performance coatings and auto refinish segments.

Exhibit 91: Key products in industrial segment

| Automotive | Performance Coatings Liquid | Powder Coatings | Auto Refinish |
|---|---|---|--|
| <ul style="list-style-type: none"> Cathodic Electro Deposition (CED) and Acrylic ACED Primers 3 Coat - 1 Bake Medium Solid and Thermo Setting Acrylic (TSA) Polyester Amino Monocoat Metallics High Mar Resistant Clear Coats Super Durable Monocoats Heat Resistant Paints Auto Interior Coatings PU Coatings | <ul style="list-style-type: none"> PU Primer, Top Coats Chlorinated Rubber Coatings Epoxy Coating Alkyd Primer & Topcoat Zinc Rich Coatings Heat Resistant Coatings Floor Coatings Pipe Coatings Coil Coatings Polysiloxane Fluoropolymer Coatings IPNet Coatings DTM Coatings Monocoat Metallic Coatings | <ul style="list-style-type: none"> Epoxy Polyester Powder, Epoxy Powder and Pure Polyester Polyurethane Heat Resistance Powder Rebar Coatings and Pipe Coating Powders Super Durable Powders and Bonded Metallic Powders High Performance Anti-Corrosion Powder System | <ul style="list-style-type: none"> Polyurethane Paints - Retan PG Eco, Cardea, Nerokan, Acric EZ and Perfect Match Nitrocellulose (NC) and NC Acrylic – NAP Modified Hybrid Alkyd-Based - Nova Plus Putty - NC, Polyester and Body Fillers |

Source: Company, ACMIL Research

Industrial customer profile

Exhibit 92: Key customers in industrial – auto segment

2-wheeler OEMs



Passenger vehicle OEMs



Ancillaries



Commercial vehicles OEMs



Tractor OEMs



Source: Company

Exhibit 93: Key customers in industrial – non-auto segment (General industrial)

| Drums & Barrels | Electricals | Helmets | PEB | CE | Cylinders | Others |
|---|---|---|--|---|---|--|
| <ul style="list-style-type: none"> Balmer Lawrie Beta industries E-con packaging Time Technoplast Dimple drums and barrels Bharat Barrels | <ul style="list-style-type: none"> Crompton Greaves Havells Orient LG Panasonic Polycab | <ul style="list-style-type: none"> Vega Studds Steelbird | <ul style="list-style-type: none"> Kirby Phenix Everest Interarch Tata JSW Severfield Pebs Pennar Bluescope steel | <ul style="list-style-type: none"> JCB Kobelco BEML Komatsu | <ul style="list-style-type: none"> ECP Industries Sanghvi Group Mauria Udyog Bhiwadi cylinders Om containers Confidence group Andhra cylinders | <ul style="list-style-type: none"> Godrej |

Source: Company, ACMIL Research

Exhibit 94: Key customers in industrial – non-auto segment (Powder coatings)

| Refrigerators | Air conditioners | Auto Ancillaries | Electricals | Others |
|---|--|--|--|--|
| <ul style="list-style-type: none"> Videocon Haier Volta Samsung Godrej | <ul style="list-style-type: none"> Carrier Hitachi LG Whirlpool Blue Star Daikin | <ul style="list-style-type: none"> JCB Visteon Wheels India Ltd. Denso | <ul style="list-style-type: none"> Philips Bajaj Havells Siemens Khaitan Crompton Greaves L&T | <ul style="list-style-type: none"> Powerica Wipro Orient Legrand |

Source: Company, ACMIL Research

Exhibit 95: Key customers in industrial – non-auto segment (High-performance coatings)

| Oil & gas | Power | Cement | Metals | Chemical & fertilizer |
|---|---|---|---|---|
| <ul style="list-style-type: none"> Reliance industries L&T Indian Oil Bharat Petroleum Hindustan Petroleum ONGC | <ul style="list-style-type: none"> NTPC Adani BHEL Suzlon Tata Thermax NPCIL | <ul style="list-style-type: none"> UltraTech Ambuja ABG ACC | <ul style="list-style-type: none"> SAIL JSW Aditya Birla Group Tata Steel Uttam Bhushan | <ul style="list-style-type: none"> GNFC RCF UPL Indonesia Nirma |

Source: Company, ACMIL Research

Manufacturing capabilities

The company has eight manufacturing plants across India and another one under construction. The existing facilities are located in:

1. Goindwal Sahib, Punjab
2. Jainpur, Uttar Pradesh
3. Bawal, Haryana
4. Sayakha, Gujarat
5. Sarigam, Gujarat
6. Lote, Maharashtra
7. Kakoda, Goa
8. Hosur, Tamil Nadu

At the end of FY24, the total manufacturing capacity was for 610,600 KL per annum. The company was operating at ~60.0% utilization levels.

Expansion plans

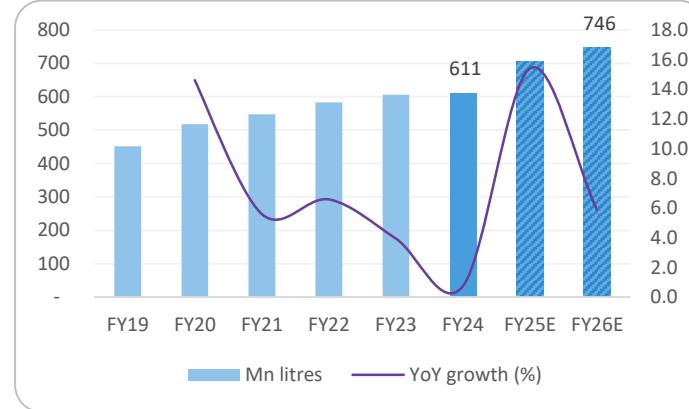
Capex plans are under way which will increase the decorative paints capacity by ~25.0% in the coming years.

In FY24, the company augmented its capacity in the below segments:

- Alkyd Resin and Emulsion at the Jainpur plant in Uttar Pradesh (Backward integration)
- Water-based paints in Hosur, Tamil Nadu
- Started manufacturing Tin-free CED paint at its plants in Bawal, Haryana and Sayakha, Gujarat
- Deployed high-speed filling lines at Hosur plant in Tamil Nadu

Capex plans are under way with a greenfield plant coming up in Visakhapatnam, Andhra Pradesh and brownfield expansions in existing plants, specifically for water-based paints in Jainpur, Uttar Pradesh. With expansions at these two plants, the decorative paints capacity will increase by ~25.0%.

Exhibit 96: Steady expansion in manufacturing capacity



Source: Company, ACMIL Research

Exhibit 97: Details of upcoming manufacturing capacities

| Location | Capacity (KLPA) | Capex (Rs mn) | Completion timeline | Details |
|--------------|-----------------|---------------|------------------------------------|-------------|
| Vizag | 82,500 | 1,600 | Phase 1 to be completed in Q2FY25E | Water-based |
| Jainpur | 52,800 | 1,300 | Q3FY25E | Water-based |
| Total | 1,54,080 | 3,160 | | |

Source: Company, ACMIL Research

Distribution capabilities

The company has seven regional distribution centres and 112 depots across India.

Retail touchpoints

Kansai Nerolac had ~33,000 retail touchpoints in India by the end of FY24. The retail distribution has been increasing by ~8.0%-10.0% every year.

Of this dealer network, ~25.0% is exclusive to Kansai Nerolac, ~50.0% offers 2/3 different paint brands and the remainder offers a higher number of brands.

The company has a stronger position in North India followed by the East, West and South.

Tinting machines

The company has tinting/ Colourant Dispenser (CCD) machines at ~80.0% of its retail outlets.

Upgradation of shops to showrooms

Nerolac's NxtGen shoppe provides a superior retail experience to the customer in terms of personalized color recommendations. This has been expanded to over 80 stores so far.

Market share

- KNPL has a market share of ~9.0%-10.0% in the decorative paints segment in India. This makes it a #3 player after Asian Paints and Berger Paints.
- In its key segment of automotive coatings, the company has a market share of 58.0%-60.0%.
- Even in powder coatings, Kansai Nerolac is a leader with a strong (40.0%) market share.
- Kansai Nerolac was a late entrant in the projects business and has garnered a market share of less than 10.0%.
- Areas of weak market share include Auto refinish, where the company was a late entrant.

Investment Rationale

1) Focus on improving presence in T1 towns and in western and southern India

KNPL has a strong presence in T2/T3/T4 towns and lags in T1 towns. It is working on further expanding its distribution in the T2/T3/T4 towns so as to improve serviceability. To improve its presence in the T1 towns, it has undertaken several initiatives targeting different areas of service. These include:

- **Projects business:** Presence increased from ~55 towns in FY23 to 75 towns at the end of FY24. The company strengthened its projects team to create a pipeline of potential projects.
- **Painting service:** The company offers painting as a service under the name of 'NxtGen.' In FY24, it expanded its reach by 100 cities to a total of 250 cities. Under the service, the company offers client visits, site evaluation, colour consultation and painting application by an experienced team. KNPL is in a position to provide this service to over 5,000 sites in a month.
- **Improving connect with influencers:** Architects and interior designers are in a position to influence customers' decisions when it comes to the home building/ renovation process. Under its programme 'Illuminati', Kansai Nerolac has connected with over 5,000 architects to engage with them about product details and product catalogues. Collaborating with these influencers also helps the company to customise its product offerings by understanding client needs and preferences, drive innovation and improve brand visibility.
- **Improving servicing to distributors:** In bigger towns, the company provides delivery-on-bike service for premium products in the range of Rs 10,000 to Rs 15,000 per drum. This helps sales of these products as the retail distributor has limitations in terms of storage space for inventory. KNPL has also reduced the time it takes to deliver its products to retail touchpoints. In places where the company was supplying in 24 hours, it has reduced it to 10–12 hours. Some premium products, such as Paint+ can also be supplied to a dealer within an hour.

With a new plant coming on stream in Visakhapatnam, Andhra Pradesh and capacity augmentation done at Hosur in Tamil Nadu, the company will be in a better position to tap the southern market, which is one of its weaker geographies.

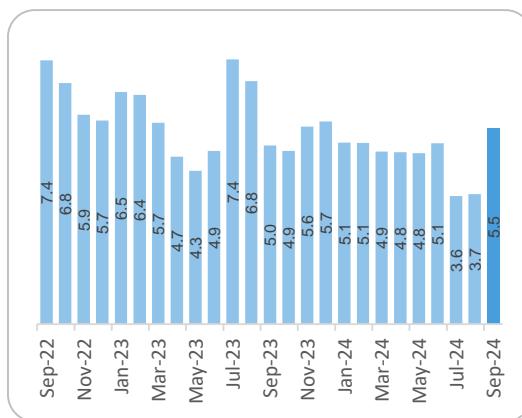
Geographically, Kansai Nerolac has a stronghold in northern India followed by the eastern region. As compared to these two areas, KNPL's market presence is weaker in the west and south. The company's decorative paints market share in the north is ~15.0% vs. 10.0% at the national level. With a new plant coming on stream in Visakhapatnam, Andhra Pradesh and capacity augmentation done at Hosur in Tamil Nadu, the company will be in a better position to tap the southern market. As a result, with improving focus on other geographies as well as deepening its presence in northern India, the company can inch up its market share and see incremental growth.

2) Beneficiary of expected recovery in rural demand

Kansai Nerolac has a higher share of business coming from rural compared to urban. In the last six months, the company has seen improvement in rural demand in the B2B business. Inflation moving in a downward trajectory (Exhibit 98), a good monsoon season (Exhibit 99) and increase in MSP to farmers will contribute to demand recovery in rural India. Additionally, the Government of India's focus on employment, skilling and rural development will contribute to recovery in discretionary spending.

Owing to higher-than-industry salience of rural, Kansai Nerolac will benefit in the next few quarters.

Exhibit 98: India's CPI inflation (%) has stabilised with gradual declining trajectory in the last year



Source: Bloomberg, ACMIL Research

Exhibit 99: 2024 has seen good rainfall, reservoir levels and kharif crop compared to long term averages as well as YoY

| Parameter | This year vs. normal range (% departure) |
|----------------------------------|--|
| Rainfall | +8% |
| Reservoir levels | +15% |
| Area coverage under Kharif crops | +1.1% (+20.3% YoY) |

Source: Government of India, ACMIL Research

3) High revenue share from industrial business will partially shield the company from competition intensity in the decorative paints business

The industrial business is driven by technology, technical expertise and customer relationships. With a very strong market share of ~58.0%–60.0% in the automotive coatings segment, the company is well-entrenched in the sector.

KNPL has a strong relationship with OEMs for decades, built on technical know-how, vast experience and enhanced value propositions. It has also added new areas of business within the automotive coatings segment over the years, which has led to an increase in the addressable market.

Even in the non-automotive industrial business, the company's customer base is across a wide spectrum of industries, such as consumer durables, petroleum, metals, chemicals and fertilisers, infrastructure, cement industry, railways, pipes precoated steel, bridges, drums and barrels, cylinders, electricals, helmets, pre-engineered buildings and construction equipment. While the market share in the industrial paints segment is difficult to calculate due to the vastness of the segment, it provides diversification benefit to the company.

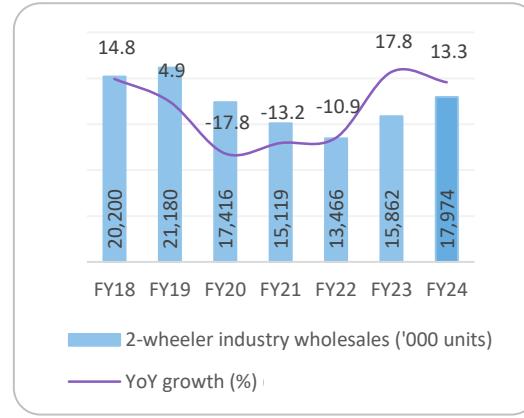
As the new competition has entered only in the decorative paints segment, the industrial paints segment will continue to operate without disruption, leading to stability in 45.0% of Kansai Nerolac's business.

4) Growth is expected to continue in the automotive industry

The automobile industry in India has emerged from the pandemic with strong growth in volumes in the last 3 years. 2-wheeler sales grew by 17.8%/13.3% YoY in FY23/FY24, respectively while PV sales grew by 26.7%/8.4% in the corresponding period. This growth has come despite subdued sales in the entry-level segments.

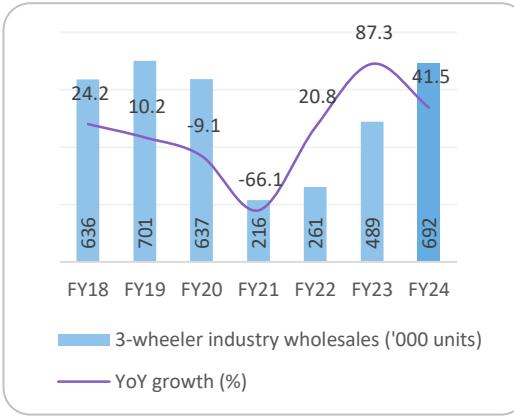
As the consumption story gains traction with a good monsoon progression this year along with moderating inflation, volume growth will continue for 2-wheelers, 3-wheelers and PVs. As per guidance by the managements of various companies, 2-wheelers and 3-wheelers are likely to see high single-digit volume growth in FY25E while PVs are likely to see mid-single-digit growth. Moreover, as the per capita consumption in the country improves, growth in the auto industry would continue in the medium to long term.

Exhibit 100: 2-wheeler industry sales in FY24 remained below the peak levels of FY19



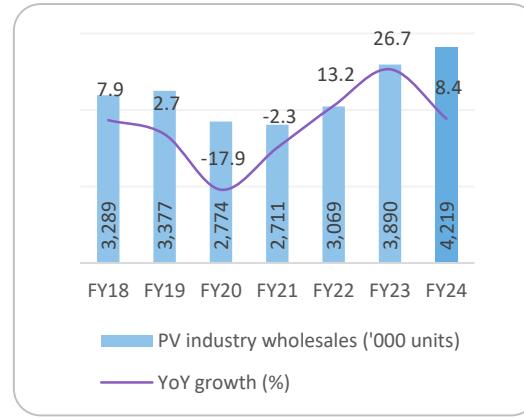
Source: SIAM, ACMIL Research

Exhibit 101: 3-wheeler industry sales in FY24 remained below the peak levels of FY19



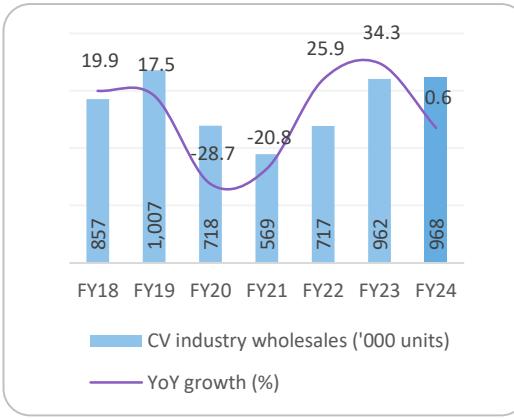
Source: SIAM, ACMIL Research

Exhibit 102: PV sales were strong, despite pressure on entry-level



Source: SIAM, ACMIL Research

Exhibit 103: CV industry sales yet to reach FY19 peak levels



Source: SIAM, ACMIL Research

5) Entering new areas within the auto segment

In the last couple of years, the company has entered into several new applications in the automotive coatings business, leading to an increase in the addressable market. These are niche segments which include alloy wheels, sealers and underbody blacks and zinc flake coating.

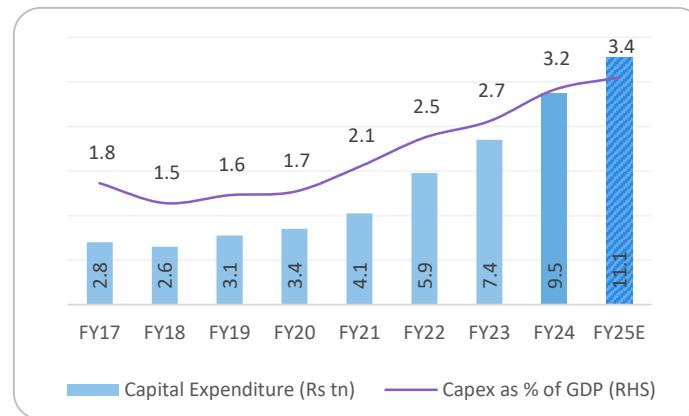
With a focus on new technology, the company has introduced differentiating products, such as tin-free CED which needs low baking time, leading to less energy requirement, cost saving and productivity improvement

6) Government's focus on infrastructure growth and KNPL's diversified customer base to aid growth in the industrial business

Kansai Nerolac's performance coatings division benefits from growth in infrastructure as its products are used in areas, such as bridges, railways, metros, pipes, electricals, pre-engineered buildings and the cement industry.

The Government of India has a sharp focus on infrastructure development, as it will enable it to reach its target of becoming a USD 5 tn economy. Thrust for improving connectivity via railways and highways, development of smart cities and expanding share of renewable energy is expected to continue.

Exhibit 104: Increasing focus on infrastructure development, capex as a % of GDP has increased over the years



Source: Government of India, ACMIL Research

In the consumer durable space, Kansai Nerolac's powder coating products are supplied to makers of refrigerators, air-conditioners, washing machines, light fixtures, etc. As per Voltas, the Indian consumer durable industry in India is expected to expand at a CAGR of 11.0% till 2025E. As per Blue Star, the AC industry in India is likely to see doubling of revenue in the next four years, from Rs 275 bn in FY24. This would translate to a CAGR of 19.0%.

7) Focus on premiumisation

KNPL has been focusing on improving the share of premium products in its business segments.

The company has worked on ramping up its Paint+ segment, under which it has products with differentiating features or differentiating pricing to democratise certain products. The share of this business in the decorative segment's revenue has gone up to high single-digits in the last two years.

In the decorative paints segment, Kansai Nerolac had a lower share of premium compared to the industry level of 30.0%–35.0%. It has gradually improved the premium business and the salience has now increased to ~30.0%. However, there is still headroom for improvement.

In the performance coatings division, the company undertook an exercise to exit low margin businesses. With this, Kansai Nerolac has exited about 10.0% of the performance coatings business. This has led an improvement in the segment's operating profitability. Management now expects to see sustainability in double-digit EBITDA margins in the industrial paints segment.

In the powder coatings segment as well, the company is focusing on premiumisation.

In the auto refinish segment, KNPL has a low market share. It is now implementing a premiumisation strategy in this business by adding A-class body shops.

8) Growth from new business areas

The relatively newer businesses of construction chemicals, waterproofing and premium wood finishes are seeing strong growth due to expansion in distribution.

In auto refinish business, the company's market share is in single-digits, which is low owing to its late entry in the market. With an already high share of the automotive market, the company is likely to see share improvement in auto refinish, which also has a better profitability.

9) Expansion in projects business

KNPL is working on improving its presence in the projects business. It has expanded from 55 towns in FY23 to 75 towns at the end of FY24. The company is working on generating a healthy pipeline of projects which will contribute to growth in the next few years. For KNPL, the projects business is growing at 1.5x to 1.8x of the overall paints growth.

Key risks

- 1) Lag in passing on rise in costs to industrial customers:** Owing to the long-term and contractual nature of the engagement with industrial customers, the Company does not frequently revise its pricing in the segment. As a result, with any increase in commodity costs, Kansai Nerolac faces margin pressure for sometime before it decides to pass on the cost impact and negotiates a new pricing with the customers.
- 2) Competition pressure in the decorative paints segment:** Lucrative growth prospects of the decorative paints segment has led to increased competitive intensity, with multiple new players entering the segment. With a larger number of players wanting a share of the pie, there could be implications on growth and profitability metrics.
- 3) Limited pricing power:** Kansai Nerolac has a market share of ~10.0% in the decorative paints segment. Being a smaller player, it has to follow the pricing actions of the market leader.
- 4) Failure to expand market share and improve utilisation levels in the new capacity due to increased competitive intensity.**
- 5) Slowdown in expansion of distribution due to higher number of players eyeing a limited number of retail touchpoints.**

Quarterly performance:

| Y/E March (Rs mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 20,514 | 19,310 | 18,268 | 17,336 | 21,568 | 19,565 | 19,187 | 17,694 | 21,331 |
| Raw Material Cost | 14,379 | 13,744 | 12,714 | 11,806 | 13,961 | 12,600 | 12,266 | 11,615 | 13,477 |
| Employee Cost | 884 | 940 | 938 | 1,008 | 1,072 | 1,085 | 1,171 | 1,158 | 1,245 |
| Other Expenses | 2,700 | 2,632 | 2,661 | 2,841 | 3,220 | 3,148 | 3,310 | 3,131 | 3,312 |
| Total Expenses | 17,963 | 17,316 | 16,313 | 15,655 | 18,253 | 16,833 | 16,747 | 15,904 | 18,035 |
| EBITDA | 2,550 | 1,994 | 1,955 | 1,681 | 3,315 | 2,732 | 2,440 | 1,790 | 3,296 |
| <i>EBITDA (%)</i> | 12.4 | 10.3 | 10.7 | 9.7 | 15.4 | 14.0 | 12.7 | 10.1 | 15.5 |
| Depreciation | 431 | 451 | 460 | 458 | 467 | 474 | 484 | 480 | 481 |
| EBIT | 2,119 | 1,542 | 1,495 | 1,223 | 2,848 | 2,259 | 1,956 | 1,311 | 2,815 |
| <i>EBIT (%)</i> | 10.3 | 8.0 | 8.2 | 7.1 | 13.2 | 11.5 | 10.2 | 7.4 | 13.2 |
| Finance cost | 85 | 63 | 74 | 68 | 71 | 76 | 75 | 70 | 72 |
| Other Income | 48 | 41 | 74 | 97 | 172 | 220 | 201 | 325 | 338 |
| PBT before exceptional items | 2,083 | 1,520 | 1,495 | 1,252 | 2,949 | 2,403 | 2,082 | 1,566 | 3,081 |
| Exceptional items | 0 | 0 | 0 | 0 | 6,613 | 0 | 0 | 0 | 0 |
| PBT | 2,083 | 1,520 | 1,495 | 1,252 | 9,562 | 2,403 | 2,082 | 1,566 | 3,081 |
| Tax | 562 | 408 | 405 | 290 | 2,222 | 648 | 561 | 423 | 832 |
| <i>Tax Rate (%)</i> | 27.0 | 26.8 | 27.1 | 23.1 | 23.2 | 27.0 | 27.0 | 27.0 | 27.0 |
| Minority interest | (43) | (24) | (10) | 25 | (40) | (17) | (22) | (17) | (60) |
| Rep. PAT | 1,563 | 1,136 | 1,099 | 938 | 7,380 | 1,772 | 1,543 | 1,160 | 2,308 |
| Reported EPS (Rs) (adj. for bonus issue) | 1.9 | 1.4 | 1.4 | 1.2 | 9.1 | 2.2 | 1.9 | 1.4 | 2.9 |
| Adj. PAT | 1,563 | 1,136 | 1,099 | 938 | 2,304 | 1,772 | 1,543 | 1,160 | 2,308 |
| Adj. EPS (Rs) | 1.9 | 1.4 | 1.4 | 1.2 | 2.8 | 2.2 | 1.9 | 1.4 | 2.9 |
| No. of Shares (adjusted for bonus issue) | 808 | 808 | 808 | 808 | 808 | 808 | 808 | 808 | 808 |

Sources: Company, ACMIL research

| YoY Growth (%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 46.2 | 19.2 | 0.9 | 12.8 | 5.1 | 1.3 | 5.0 | 2.1 | (1.1) |
| EBITDA | 33.9 | 22.5 | (7.9) | 100.3 | 30.0 | 37.1 | 24.8 | 6.5 | (0.6) |
| Adj. PAT | 37.0 | 23.4 | (14.1) | 279.2 | 47.4 | 56.0 | 40.3 | 23.7 | 0.2 |
| Adj. EPS | 37.0 | 23.4 | (14.1) | 279.2 | 47.4 | 56.0 | 40.3 | 23.7 | 0.2 |

Sources: Company, ACMIL research

| QoQ Growth (%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 33.5 | (5.9) | (5.4) | (5.1) | 24.4 | (9.3) | (1.9) | (7.8) | 20.6 |
| EBITDA | 203.9 | (21.8) | (1.9) | (14.0) | 97.2 | (17.6) | (10.7) | (26.6) | 84.1 |
| Adj. PAT | 532.1 | (27.3) | (3.2) | (14.7) | 145.7 | (23.1) | (12.9) | (24.8) | 98.9 |
| Adj. EPS | 532.1 | (27.3) | (3.2) | (14.7) | 145.7 | (23.1) | (12.9) | (24.8) | 98.9 |

Sources: Company, ACMIL research

KNPL reported resilient margin performance in the quarter despite subdued demand in the decorative paints segment. Margin improvement was due to improvement in product mix in both decorative and industrial segments.

Highlights from the latest quarterly results (Q1FY25)

| Y/E March (Rs in mn) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | Consensus Est. | Var% |
|------------------------------------|---------------|---------------|----------------|---------------|----------------|----------------|--------------|
| Net Revenue | 21,331 | 21,568 | (1.1) | 17,694 | 20.6 | 21,959 | (2.9) |
| Expenses: | | | | | | | |
| Total Raw Material Cost | 13,477 | 13,961 | (3.5) | 11,615 | 16.0 | | |
| Employee Cost | 1,245 | 1,072 | 16.2 | 1,158 | 7.6 | | |
| Other Expenses | 3,312 | 3,220 | 2.8 | 3,131 | 5.8 | | |
| Total Operating Cost | 18,035 | 18,253 | (1.2) | 15,904 | 13.4 | | |
| EBITDA | 3,296 | 3,315 | (0.6) | 1,790 | 84.1 | 2,961 | 11.3 |
| EBITDA (%) | 15.5 | 15.4 | 8 bps | 10.1 | 534 bps | | |
| Depreciation | 481 | 467 | 3.1 | 480 | 0.4 | | |
| EBIT | 2,815 | 2,848 | (1.2) | 1,311 | 114.8 | | |
| Other Income | 338 | 172 | 96.7 | 325 | 4.0 | | |
| Interest | 72 | 71 | 1.3 | 70 | 2.7 | | |
| Extraordinary Items | 0 | 6,613 | NA | 0 | NA | | |
| PBT | 3,081 | 9,562 | (67.8) | 1,566 | 96.8 | | |
| Tax | 832 | 2,222 | (62.5) | 423 | 96.9 | | |
| Effective Tax Rate (%) | 27.0 | 23.2 | 378 bps | 27.0 | 1 bps | | |
| Minority interest | (59.6) | (40.0) | | (17.4) | | | |
| RPAT | 2,308 | 7,380 | (68.7) | 1,160 | 98.9 | | |
| APAT | 2,308 | 2,304 | 0.2 | 1,160 | 98.9 | 2,051 | 12.5 |
| APAT (%) | 10.8 | 10.7 | 14 bps | 6.6 | 426 bps | | |
| Reported EPS (diluted) (Rs) | 2.9 | 9.1 | (68.8) | 1.4 | 99.3 | | |
| Adj. EPS (Rs) | 2.9 | 2.8 | 0.2 | 1.4 | 98.9 | | |

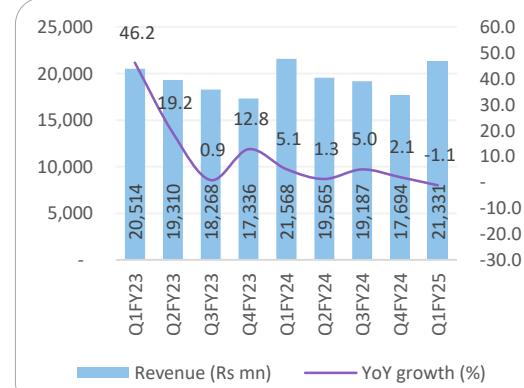
Sources: Company, Bloomberg, ACMIL research

Kansai Nerolac's consolidated revenue was at Rs 21,331 mn, a decline of 1.1% YoY as compared to the consensus estimate of a growth of ~1.8% YoY. While the reported revenue was a miss vis-à-vis the consensus estimate, profitability was resilient, beating the street estimate. EBITDA margin saw a slight uptick to 15.5% vs. 15.4% in Q1FY24. The consensus estimate was of a decline of 189 bps YoY. Margin performance was driven by cost control, product mix and procurement efficiencies. Adjusting for the exceptional gain related to sale of land in the base quarter Q1FY24, Adj. PAT of Rs 2,308 mn in Q1FY25 was flat on a YoY basis. This was a strong performance as compared to what the street had estimated – a decline of 11.0% YoY.

- **Volume growth continued to be positive:** Kansai Nerolac saw YoY volume growth in both the decorative and industrial segments, with higher growth in the latter.
- **Demand scenario in decorative paints segment:** Demand in the decorative paints segment was affected due to the unprecedented heat wave and the general elections. The projects segment and new businesses, which include wood finishes, construction chemicals and waterproofing, continued to see strong growth.
- **Demand scenario in industrial paints:** The demand for automotive coatings continued to be good, driven by decent performance of the passenger vehicles industry and strong growth in the 2-wheeler industry. Performance coatings segment was impacted due to the general election but saw an uptick in June, post elections.
- **Product mix improvement:** The salience of premium products has increased, leading to gross margin improvement on a YoY basis.
- **Margin performance:** Gross margins expanded by 155 bps YoY, led by improved salience of premium products in both, decorative and industrial, segments, some benefit of low cost raw material inventory and cost reduction efforts. EBITDA margin was maintained YoY as the gross margin expansion was offset by increase in employee costs and marketing spends.
- **Rural vs. urban:** Urban growth has continued to be higher than rural. However, rural is seeing sequential improvement for the last 2–3 quarters.
- **Comments on market share:** Within auto, Kansai Nerolac has a market share in the EV business similar to its overall automotive coatings' market share.
- **Capacity expansion:** The company is on track to add 30.0%+ capacity in its decorative paints segment. The overall capacity utilisation is at ~60.0%.
- **Demand outlook in decorative paints:** The management expects improvement in demand in the coming quarters, especially in H2FY25E. Demand in decorative paints segment will be driven by the expectation of a good monsoon and a good wedding season Q2FY25E onward. Decorative paints may see a high single-digit volume growth in FY25E, while value growth will be lower. Projects business could see a high double-digit revenue growth.
- **Demand outlook in industrial paints:** The automobile industry is expected to see a growth in production volumes of ~6%–7% for FY25E, which will drive growth for Kansai Nerolac's automotive coatings segment. Performance coatings growth is likely to be strong, based on a robust order pipeline.
- **Input cost and pricing:** Raw material prices saw an uptick in the quarter and Kansai Nerolac has already taken a round of price hikes, with another planned in the near term. Combined, these two rounds of hikes address the rise in input costs. In the Paint+ category, the company has taken extra price hikes in some products.
- **Margin guidance:** The management targets to maintain the EBITDA margins in FY25E at FY24 levels.

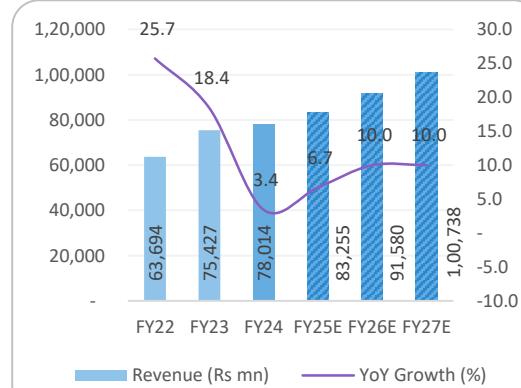
Story in charts:

Exhibit 105: Revenue growth has decelerated due to price cuts



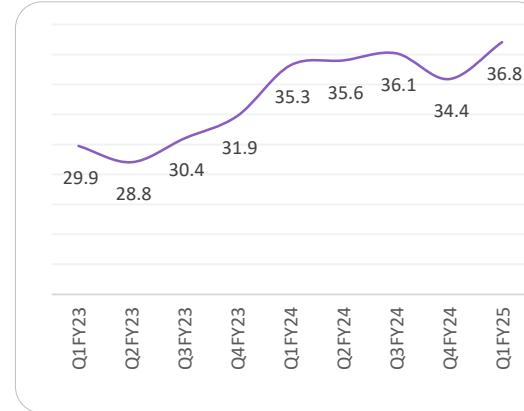
Source: Company, ACMIL Research

Exhibit 106: We expect an uptick in growth over FY25E-FY27E, with a CAGR of 8.9% over FY24-FY27E



Source: Company, ACMIL Research

Exhibit 107: Gross margin (%) has inched up due to premiumisation and cost reduction measures by the company



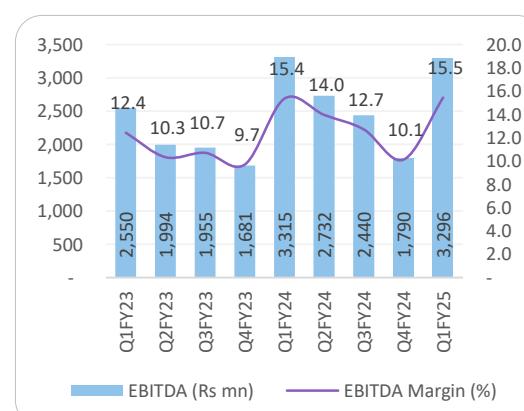
Source: Company, ACMIL Research

Exhibit 108: We expect gross margin (%) uptick to continue aided by focus on entering high margin businesses and exiting low margin segments



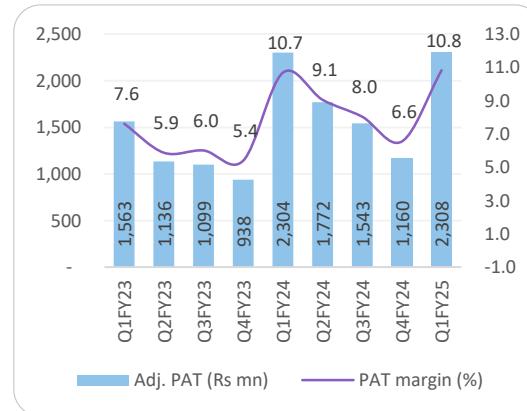
Source: Company, ACMIL Research

Exhibit 109: Seasonality in EBITDA margin due to changing mix between decorative and industrial on a QoQ basis; Q1 and Q3 have better product mix



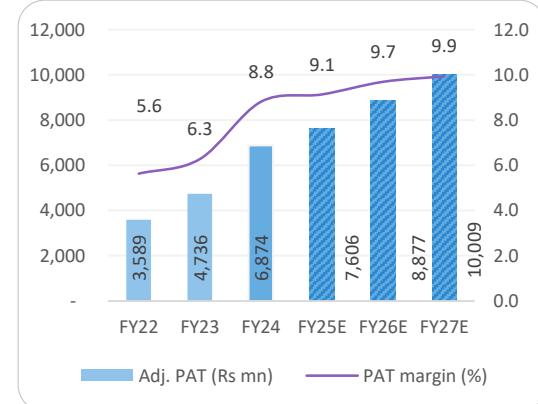
Story in charts:

Exhibit 111: Net profit margin has inched up in FY24



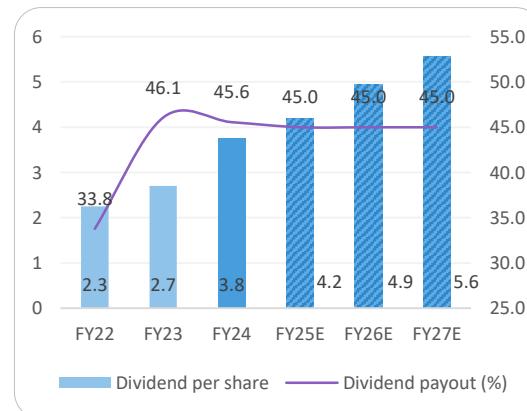
Source: Company, ACMIL Research

Exhibit 112: Uptick in EBITDA margin to aid PAT margin expansion



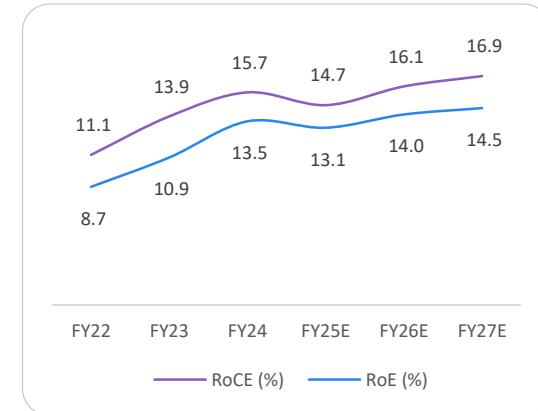
Source: Company, ACMIL Research

Exhibit 113: Dividend payout to remain steady



Source: Company, ACMIL Research

Exhibit 114: We expect return ratios to dip in FY25E due increased cash on books; ex-cash ROCE to expand



Source: Company, ACMIL Research

Key projections

In FY25E, we expect consolidated revenue growth of 6.7% YoY. Within this, the industrial segment will see higher growth, owing to company's focus on increasing its share in the non-automotive industrial business and uptick in infrastructure activity expected in H2FY25E. We expect growth of ~9% in the industrial coatings business in FY25E. Growth in the decorative paints business is expected to be lower in mid-single digits, even as volume growth will be closer to high-single digits. This is on account of price cuts taken by the industry till earlier this year.

Overall we expect a revenue CAGR of 8.9% over the next 3 years, with the share of industrial business increasing.

Management expects EBITDA margin to be stable YoY in FY25E. Despite higher growth in industrial business and increase in ad spends, margin stability will be supported by premiumisation in both decorative and industrial segments, and cost rationalization efforts. Post FY25E, we expect margins to see gradual YoY improvement as ad spends stabilise and the company continues to benefit from premiumisation and improving capacity utilization.

We expect Revenue/ EBITDA/ Adj. PAT CAGR of 8.9%/ 12.0%/ 13.3%, respectively over FY24-FY27E.

Valuation and View:

KNPL has a strong diversified business, with revenue split almost equally between decorative and industrial paints. The company is focusing on growth and premiumisation in both these segments. The decorative paints segment will benefit from expanding distribution in T1 towns and west+south India, growth in projects business and premiumisation through Paint+ range. Higher presence in rural India will also benefit the company as rural recovery is expected to gain traction in the near term. On the industrial paints side, the company is benefiting from the Indian infrastructure growth story. It has exited low margin industrial businesses, and is working on growing its business in new segments across automotive and performance coatings segments.

The stock is trading at 30.1x/25.8x/22.9x its FY25E/FY26E/FY27E Adj. EPS. We value the company at 31x its Sep-26E Adj. EPS of Rs 11.7, arriving at a price target of Rs 365. With an upside of 28.8%, we assign a BUY rating to the shares of Kansai Nerolac Ltd. Key risks to our assumptions are higher competitive intensity impacting growth, slowdown in rural recovery and growth concerns in the auto industry.

Exhibit 115: Valuation Summary

| Valuation | Rs |
|------------------------------------|-------------|
| Adj. EPS- 12 months ending Sep-26E | 11.7 |
| P/E (x) | 31 |
| Target price | 365 |
| CMP | 283 |
| Upside potential (%) | 28.8 |
| Rating | BUY |

Source: Company, ACMIL Research

Exhibit 116: 1-year forward P/E



Source: Company, ACMIL Research

Financial (Consolidated)

Income Statement

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|-----------------------------------|---------------|---------------|---------------|---------------|-----------------|
| Revenue from operations | 75,427 | 78,014 | 83,255 | 91,580 | 1,00,738 |
| <i>Growth (%)</i> | 18.4 | 3.4 | 6.7 | 10.0 | 10.0 |
| RM cost | 52,643 | 50,441 | 52,898 | 57,916 | 63,506 |
| Employee cost | 3,771 | 4,486 | 5,185 | 5,544 | 6,099 |
| Other expenses | 10,834 | 12,810 | 14,091 | 15,257 | 16,682 |
| Total expenses | 67,247 | 67,737 | 72,174 | 78,718 | 86,287 |
| EBITDA | 8,180 | 10,278 | 11,080 | 12,863 | 14,451 |
| <i>Growth (%)</i> | 26.0 | 25.6 | 7.8 | 16.1 | 12.3 |
| <i>EBITDA margin (%)</i> | 10.8 | 13.2 | 13.3 | 14.0 | 14.3 |
| Depreciation | 1,801 | 1,905 | 2,078 | 2,208 | 2,323 |
| EBIT | 6,379 | 8,373 | 9,002 | 10,654 | 12,128 |
| <i>EBIT margin (%)</i> | 8.5 | 10.7 | 10.8 | 11.6 | 12.0 |
| Other income | 260 | 919 | 1,194 | 1,194 | 1,194 |
| Interest expense | 290 | 292 | 288 | 287 | 287 |
| PBT before exception items | 6,349 | 9,000 | 9,908 | 11,562 | 13,035 |
| Exceptional items | 0 | 6,613 | 0 | 0 | 0 |
| PBT | 6,349 | 15,612 | 9,908 | 11,562 | 13,035 |
| Tax | 1,664 | 3,854 | 2,553 | 2,914 | 3,285 |
| <i>Effective tax rate</i> | 26.2 | 24.7 | 25.8 | 25.2 | 25.2 |
| Minority interest | (51) | (96) | (195) | (229) | (258) |
| Rep. PAT | 4,736 | 11,854 | 7,550 | 8,877 | 10,009 |
| <i>Rep. PAT Growth (%)</i> | 32.0 | 150.3 | (36.3) | 17.6 | 12.7 |
| <i>Rep. PAT (%)</i> | 6.3 | 15.2 | 9.1 | 9.7 | 9.9 |
| Adj. PAT | 4,736 | 6,874 | 7,606 | 8,877 | 10,009 |
| <i>Adj. PAT Growth (%)</i> | 32.0 | 45.2 | 10.7 | 16.7 | 12.7 |
| <i>Adj. PAT (%)</i> | 6.3 | 8.8 | 9.1 | 9.7 | 9.9 |

Source: Company, ACMIL Research

Balance Sheet

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 539 | 808 | 808 | 808 | 808 |
| Reserves & surplus | 44,798 | 55,017 | 59,536 | 65,016 | 71,030 |
| Non-controlling interest | 267 | 160 | 160 | 160 | 160 |
| Net Worth | 45,604 | 55,986 | 60,505 | 65,984 | 71,998 |
| Borrowings | 47 | 150 | 150 | 150 | 150 |
| Lease liabilities | 1,000 | 1,254 | 1,254 | 1,254 | 1,254 |
| Other non current liabilities | 1,346 | 1,502 | 1,502 | 1,502 | 1,502 |
| Non current liabilities | 2,393 | 2,906 | 2,906 | 2,906 | 2,906 |
| Short term borrowings | 1,553 | 1,057 | 1,057 | 1,057 | 1,057 |
| Lease liabilities | 271 | 303 | 303 | 303 | 303 |
| Trade payables | 10,156 | 10,956 | 11,489 | 12,579 | 13,793 |
| Other financial liabilities | 697 | 873 | 873 | 873 | 873 |
| Other current liabilities | 2,390 | 2,017 | 2,017 | 2,017 | 2,017 |
| Current liabilities | 15,067 | 15,206 | 15,739 | 16,829 | 18,043 |
| Equity & liabilities | 63,064 | 74,097 | 79,150 | 85,719 | 92,947 |
| Net PPE | 18,882 | 19,406 | 20,328 | 20,409 | 20,101 |
| CWIP | 1,131 | 1,491 | 1,491 | 1,491 | 1,491 |
| ROU Assets | 1,825 | 2,085 | 2,085 | 2,085 | 2,085 |
| Investment property | 1 | 1 | 1 | 1 | 1 |
| Intangible assets | 372 | 365 | 365 | 365 | 365 |
| Financial assets | 200 | 238 | 238 | 240 | 244 |
| Other non current assets | 2,621 | 3,021 | 3,021 | 3,021 | 3,021 |
| Non current assets | 25,032 | 26,606 | 27,529 | 27,612 | 27,308 |
| Inventories | 17,291 | 16,875 | 17,697 | 19,375 | 21,245 |
| Investments | 4,981 | 13,229 | 13,229 | 13,229 | 13,229 |
| Trade receivables | 12,379 | 13,349 | 14,245 | 15,670 | 17,237 |
| Cash | 1,046 | 1,722 | 4,134 | 7,517 | 11,612 |
| Bank balances | 223 | 877 | 877 | 877 | 877 |
| Other current assets | 2,110 | 1,439 | 1,439 | 1,439 | 1,439 |
| Current assets | 38,031 | 47,490 | 51,621 | 58,106 | 65,639 |
| Assets held for sale | 1 | 1 | 1 | 1 | 1 |
| Total assets | 63,064 | 74,097 | 79,150 | 85,719 | 92,947 |

Source: Company, ACMIL Research

Cash Flow

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 6,349 | 15,612 | 9,908 | 11,562 | 13,035 |
| Add: Depreciation | 1,801 | 1,905 | 2,078 | 2,208 | 2,323 |
| Add: Interest | 290 | 292 | 288 | 287 | 287 |
| Other adjustments | (134) | (7,185) | (1,194) | (1,194) | (1,194) |
| Chg in working cap | (2,358) | 827 | (1,185) | (2,013) | (2,223) |
| Tax | (1,866) | (2,421) | (2,553) | (2,914) | (3,285) |
| Operating Cash flow | 4,083 | 9,030 | 7,343 | 7,936 | 8,943 |
| Capex | (1,215) | (2,366) | (3,000) | (2,290) | (2,015) |
| Free Cash Flow | 2,867 | 6,665 | 4,343 | 5,646 | 6,928 |
| Investments | (1,083) | (3,577) | 0 | (2) | (4) |
| Interest/ dividend income | 29 | 45 | 1,194 | 1,194 | 1,194 |
| Investing Cash flow | (2,269) | (5,898) | (1,806) | (1,098) | (825) |
| Equity Capital | 0 | 0 | 0 | 0 | 0 |
| Debt | (588) | (872) | 0 | 0 | 0 |
| Dividend paid | (552) | (1,455) | (3,032) | (3,398) | (3,995) |
| Interest paid | (186) | (161) | (288) | (287) | (287) |
| Others | 0 | 0 | 195 | 229 | 258 |
| Financing Cash flow | (1,326) | (2,488) | (3,125) | (3,455) | (4,023) |
| Net chg in cash | 487 | 644 | 2,412 | 3,383 | 4,095 |
| Opening cash position | 770 | 1,046 | 1,722 | 4,134 | 7,517 |
| Change in bank overdraft | (212) | 32 | 0 | 0 | 0 |
| Closing cash position | 1,046 | 1,722 | 4,134 | 7,517 | 11,612 |

Source: Company, ACMIL Research

Key Ratios

| YE March (Rs) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|------|------|-------|-------|-------|
| Adj. EPS | 5.9 | 8.5 | 9.4 | 11.0 | 12.4 |
| CEPS | 5.1 | 11.2 | 9.1 | 9.8 | 11.1 |
| BVPS | 56.4 | 69.3 | 74.8 | 81.6 | 89.1 |
| DPS | 2.7 | 3.8 | 4.2 | 4.9 | 5.6 |
| Valuations (x) | | | | | |
| P/E | 48.4 | 33.3 | 30.1 | 25.8 | 22.9 |
| P/BV | 5.0 | 4.1 | 3.8 | 3.5 | 3.2 |
| EV/Sales | 2.9 | 2.8 | 2.6 | 2.4 | 2.1 |
| EV/EBITDA | 26.4 | 21.0 | 19.5 | 16.8 | 15.0 |
| Dividend Yield (%) | 46.1 | 45.6 | 45.0 | 45.0 | 45.0 |
| Return Ratio (%) | | | | | |
| RoCE | 13.9 | 15.7 | 14.7 | 16.1 | 16.9 |
| RoE | 10.9 | 13.5 | 13.1 | 14.0 | 14.5 |
| Gearing Ratio (x) | | | | | |
| Net Debt/Equity | 0.0x | 0.0x | 0.1x | 0.0x | 0.0x |
| Net Debt/EBITDA | 0.1x | 0.1x | 0.2x | 0.1x | 0.0x |
| Working Cap Cycle (days) | 109 | 105 | 105 | 105 | 105 |
| Profitability (%) | | | | | |
| EBITDA Margin | 10.8 | 13.2 | 13.3 | 14.0 | 14.3 |
| EBIT Margin | 8.5 | 10.7 | 10.8 | 11.6 | 12.0 |
| Adj. PAT Margin | 6.3 | 8.8 | 9.1 | 9.7 | 9.9 |

Source: Company, ACMIL Research

Akzo Nobel India Ltd. (AKZO)

Uncertainty due to portfolio review by parent

Hold

Target: ₹3,410

We initiate coverage on Akzo Nobel India with a 'Hold' rating and a price target of Rs 3,410. The company has a diversification benefit due to presence in decorative and industrial paints, and has a superior product mix in decorative. As a result, it has among the highest EBITDA margins in the industry. However, going ahead, as the company enters into economy segments, it will see margin contraction. The bigger concern is the portfolio review announced by the parent company, where it is looking at possible partnerships/ divestment of its India decorative business, in order to focus on its global strength area of coatings. While the business is profitable, it is not a market leadership position, hence the decision to review the business. With this, there is an uncertain event in the near term, which may have significant impact on company's performance and valuations. As a result, we would prefer to wait and watch the situation unfold.

Strong growth potential in the coatings business

The coatings business is driven by demand in sectors such as automobiles, infrastructure, oil & gas, renewables, consumer durables, etc. Akzo Nobel India has a diversified presence in industrial coatings, with products catering to multiple sub-segments, all of which are poised for good growth in the coming years.

Distribution expansion to aid growth in decorative paints segment

In the last few years, the company aggressively expanded its retail presence. Its products were available in just about 2,000 towns in 2018, which was taken up to ~5,500 towns at present. The company plans to increase it to 8,000 towns in about two years. The company is targeting ~290 districts where it had zero presence as of the start of FY24.

Strong presence in premium segments, but will increase economy portfolio going ahead

Akzo Nobel India's portfolio is under-indexed in the mass and premium segments, with majority of business coming from premium offering. Within decorative paints, premium constitutes almost 45%-50% of revenue. The company has a much higher market share in premium segment, at 17%-18%, while in the mass segments, it has a market share of just 2%-3%. The company's endeavor is to take the mass segment market share to its overall market share of ~5% to 6%.

Valuation & Outlook

Historically, the stock has on average traded at 30.9x for last 5 years and 28.1x for last 2 years.

Despite positives in terms of growth potential, uncertainty due to portfolio review by parent is concerning. Additionally, the company will see margin contraction due to change in product mix. As a result, we believe the company's current valuation multiples of 40.2x/37.6x/ 35.7x based on FY25E/FY26E/FY27E EPS, respectively, may not be sustainable.

We assign a P/E of 33x to the Sep-26E EPS of Rs 103.3, arriving at a price target of Rs 3,410. With a potential downside of 8.7%, we recommend 'Hold' for the shares of Akzo Nobel India.

Key Data

| | |
|--------------------------|-------------|
| Bloomberg code: | AKZO IN |
| Target price (₹) | 3,410 |
| CMP (₹) | 3,736 |
| Upside/ (Downside) (%) | (8.7) |
| Rating: | Hold |
| Shares outstanding (mn): | 46 |
| Mcap (Rs bn) | 170 |
| 52-week H/L (Rs): | 4,649/2,267 |

Price Performance (%)

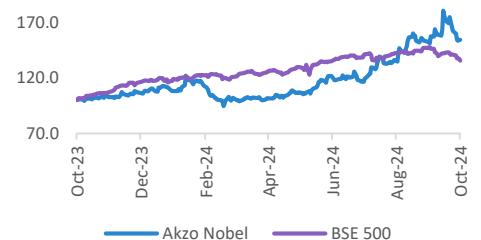
| | |
|-----------|------|
| 1 month | 3.5 |
| 3 months | 31.2 |
| 12 months | 56.1 |

Shareholding Pattern (%)

| | Mar'24 | Jun'24 | Sep'24 |
|--------------|--------|--------|--------|
| Promoter | 74.8 | 74.8 | 74.8 |
| FII | 3.4 | 3.6 | 3.8 |
| DII | 8.4 | 8.3 | 8.0 |
| Public/other | 13.4 | 13.3 | 13.4 |
| Pledge | - | - | - |

Sources: BSE

Performance vs. BSE 500



Sources: BSE

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------|--------|--------|--------|--------|--------|
| Revenue | 38,021 | 39,616 | 42,265 | 46,491 | 50,210 |
| Growth (%) | 20.8 | 4.2 | 6.7 | 10.0 | 8.0 |
| EBITDA | 5,251 | 6,320 | 6,380 | 6,861 | 7,289 |
| EBITDA (%) | 13.8 | 16.0 | 15.1 | 14.8 | 14.5 |
| Adj. PAT | 3,351 | 4,266 | 4,228 | 4,519 | 4,769 |
| Adj. EPS | 73.6 | 93.7 | 92.9 | 99.3 | 104.8 |
| Adj. EPS Growth (%) | 16.1 | 27.3 | -0.9 | 6.9 | 5.5 |
| ROE (%) | 30.7 | 37.2 | 35.8 | 35.8 | 35.1 |
| ROCE (%) | 26.0 | 32.2 | 30.8 | 30.8 | 30.1 |
| P/E (x) | 50.8 | 39.9 | 40.2 | 37.6 | 35.7 |

Source: Company, ACMIL Research

Analyst

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In FY24, Akzo Nobel India had EBITDA margins of 18.2%, second only to the market leader, due to higher revenue share of premium products.

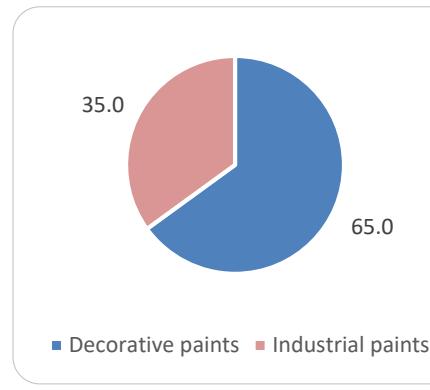
Company Overview

- Akzo Nobel India Limited is the Indian subsidiary of the world's largest coatings company, Akzo Nobel.
- The origination of Akzo Nobel India dates back to 1954 with the formation of Indian Explosives Ltd, promoted jointly by ICI PLC and the Government of India. It underwent several changes in name and holding structure before it became a part of Akzo Nobel in 2008. It was renamed Akzo Nobel India Limited in 2010.
- In India, it is present in the paints (decorative) and coatings (industrial) business through its global brands- Dulux, International, Interpon, Sikkens and CoatIN.
- The company has the 2nd highest EBITDA margins among the top 5 companies, 2nd only to the market leader, owing to its product mix which has a high share of premium products.

Business Segments

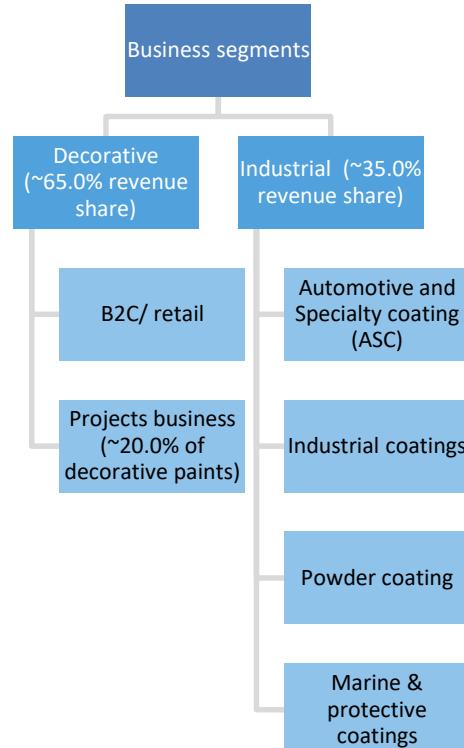
- Akzo Nobel India categorises its business into two segments, based on end-user and applications.
- The 'paints' segment is the decorative paints segment which includes the B2B and projects businesses. This contributes ~65.0% to the total revenue.
- The 'coatings' segment caters to the industrial clients across sub-segments such as automotive and specialty coatings, industrial coatings, powder coatings and marine & protective coatings. All these coatings businesses combined contribute to 35.0% of the company's topline.

Exhibit 117: Revenue split between decorative and industrial



Revenue split between decorative: industrials is 65:35

Exhibit 118: Division of business into decorative and industrial applications



Source: Company, ACMIL Research

AKZO aims to be among the top three players in the WPCC segment in the next 2-3 years.

Business Segments- Applications & Brands

1. Decorative paints

- Akzo Nobel India's decorative paints segment caters to products across paints, lacquers, varnishes to retail customers as well as projects business. It's revenue contribution stands at ~65%.
- The segment caters to interior and exterior wall paints. It has also entered new categories such as waterproofing and wood finishes which contribute 10% to the overall revenue. The company entered the waterproofing business in 2018 and aims to be among the top three players in the segment in the next 2-3 years. This will help the company to bolster its market share.
- The company sells interior and exterior paints under the brand 'Dulux' and premium wood coatings under 'Sadol' PU range.
- The interior paint brands include- Dulux Ambiance Metallic, Dulux Ambiance Elasto Glo, Dulux Promis interior and Dulux Superclean.
- Exterior paints are marketed under the 'Dulux Weathershield' brand. These paints are equipped with technologies such as 'Dirt Guard', 'Alkali-Guard', SunReflect and 'Fungal guard'. 'Dulux Aqua Tech' brand caters to the waterproofing segment.
- Within its decorative paints business, the share of premium is almost 45%-50%. On the other hand, the company is under-indexed when it comes to presence in mass/ economy categories. To increase its share, Akzo Nobel India is accelerating its play in the mass and value segments.
- To stress on its focus on quality, the company in FY21, launched Dulux Assurance, a first-of-its-kind consumer program for Premium Emulsions. The program promises perfect colour, uniform finish and coverage from Dulux Paints.

2. Coatings business

The company's coatings business contributes ~35.0% to the total revenue. This segment is further divided into 4 categories- automotive & specialty coatings, industrial coatings, powder coatings and marine & protective coatings.

i. Automotive & specialty coatings

- This is one of the bigger segments within the coatings space for Akzo Nobel India. It comprises of automotive OEM coatings, consumer electronics coatings, vehicle refinishes (VR) and specialty coatings.
- The applications of these coatings within auto space include
 - Automotive interiors and exteriors – OEMs and auto part makers
 - Commercial vehicles – Original equipment builders, repairers and refurbishers of light and heavy commercial vehicles
 - Vehicle Refinishes – Dealer networks, body shops, distributors & fleet owners
- It has a range of brands catering to different consumer segments.
 - 'Sikkens Autocoat BT' caters to commercial vehicles, for both original coating and refinishes.
 - In the vehicle refinish business, the company's premium offering is 'Sikkens'. It is globally one of the leading refinish coatings brand.
 - 'Lesonal' brand is positioned as a high quality brand with minimal cycle time.
 - To cater to the value conscious customer, Akzo Nobel sells refinish products under the Wanda brand.
 - 'Duco' brand offers nitrocellulose-based paints for a high build and gloss. These coatings claim to have excellent filling properties, are fast-drying and highly durable.
- Over the years, the company has received approvals from various OEMs.
 - In FY21, the ASC business received OEM approvals from players like Citroen and MG.
 - In FY23, Tata Motors' passenger vehicles division approved Sikkens and Lesonal brands for its network refinishing requirements.
 - In FY24, the premium vehicle refinish (VR) business secured annual business tie-ups for over 200 OEM Authorized Bodyshops.

ii. Industrial coatings

- The company offers two types on industrial coatings- coil coatings and packaging coatings.
- Coil and extrusion coatings are used in residential, agricultural, and commercial industries for roofing, building & construction, aluminium composite panels and domestic appliance segments. Coil coating provides beautiful topcoats, durable surfaces, innovative applications, green benefits, and cost savings as compared to other substrates and other coating options.
- Extrusion coatings are high performance coatings for architectural aluminum. The company has a brand, 'TRINAR®', specifically for extrusion coatings.
- Packaging coatings business provides coatings and inks for interior and exterior of cans, caps & closures and collapsible tubes for beverage, food, aerosol and general line industries, cans, metal closures and collapsible tubes. These coatings protect the metal and the contents of the can from each other, ensuring that the flavor, texture and appearance of canned foods is maintained.
- Akzo Nobel India is a preferred partner for complete monobloc offerings for Metal Impacts (P) Ltd., one of the leading producers of aluminum cans in India.

Exhibit 119: Industrial coating applications



Source: Company, ACMIL Research

iii. Powder coatings

- The company provides powder coatings solutions to sectors such as automotive, architectural, appliances, agricultural and construction (ACE), general industrial, functional, furniture, and IT.
- This comprehensive range of powder coatings helps to protect a variety of metal surfaces in applications including window and door frames, pipes, car components, radiators, metal furniture, home appliances etc. Powder coating is also used on underbody-chassis, exterior trims, primers and clear for wheels and coatings for springs in the automobile segment.
- The powder coatings products are sold under the brands 'Interpon' and 'Resicoat'. These are eco-friendly, containing zero volatile organic compounds (VOC) and no toxic heavy metals such as lead or chromium.

Exhibit 120: Key segment-wise applications in powder coatings

| Architectural | Automotive | Industrial & Consumer | General Trade Coater | Functional |
|---|--|--|--|--|
| <ul style="list-style-type: none"> Frameworks and building structures Window frames and doors Facades and curtain walling Louvres and shutters Fencing and railing Ceiling tiles Verandas and conservatories | <ul style="list-style-type: none"> High-performance coating solutions for cars, trucks, and buses OEMs Tier 1 and 2 component producers | <ul style="list-style-type: none"> Lighting Domestic appliances IT Electrical distribution cabinets Shopfitting Machinery Equipment to renewable energy | <ul style="list-style-type: none"> Broad range of stock powder products | <ul style="list-style-type: none"> Valves and fittings for drinking water, wastewater, gas, biogas, and fire hydrants Drinking water pipelines Electrical insulation; rotors, stators, busbars (for batteries), toroid rings/magnetic cores, coils/bobbins, EV battery systems Pipeline coatings; external, internal, field joints and custom coatings for pipeline accessories Rebar |

Source: Company, ACMIL Research

iv. Marine & protective coatings

- Marine Coatings business mainly deals in providing anticorrosive, fouling control technologies and aesthetic solutions for ships, vessels, tankers, barges etc.
- The company's anti-fouling range of offerings such as Interswift and Intersleek are now coating some of the biggest cargo vessels in and outside India.
- Akzo Nobel's 'International®' brand is the world leader in marine, yacht and protective coatings.
- Protective coatings business has applications in industrial sectors like oil & gas, power, infrastructure projects and wind energy.
- The growth in this segment is driven by boost in government projects for renewable & cleaner energy, acceleration in infrastructure projects, rehabilitation of Oil & Gas and Chemical Industries assets.
- Another brand, 'CoatIN' offers a cost-effective, technology driven range of protective coatings specifically designed to protect different surfaces from harmful effects of corrosion.

Exhibit 121: Akzo Nobel's key global brands



Source: Company, ACMIL Research

Manufacturing capabilities

Akzo Nobel India has five manufacturing sites, two R&D centers. The manufacturing facilities are located in:

1. Mohali
2. Gwalior
3. Thane
4. Bengaluru
5. Hyderabad

The R&D centres are located at Thane (Mumbai) and Bangalore.

The overall production capacity was 300 mn litres per annum, as of the end of FY23. In September 2024, the company added 5,166 tons per annum of powder coatings capacity at Gwalior, Madhya Pradesh.

The company is operating at ~60% capacity utilisation levels.

Distribution capabilities

Retail touchpoints

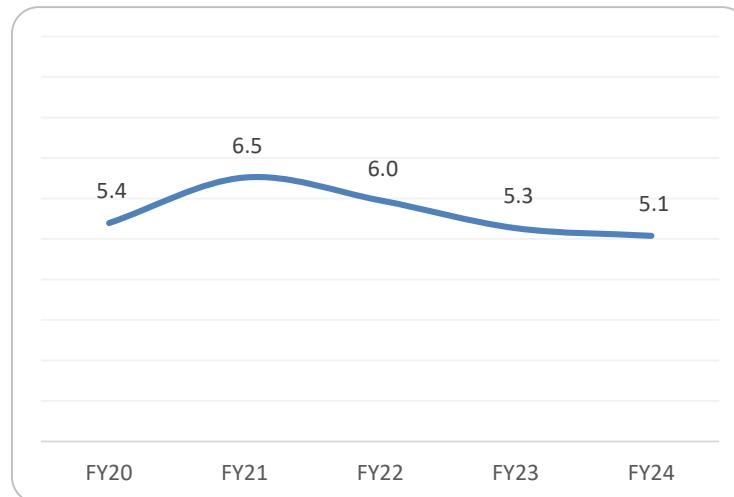
Akzo Nobel India has expanded its presence to 5,500+ towns and plans to take it further to ~8,000 towns in next few years. This is a significant jump from just 2,000 towns in FY18.

The company has a retail presence at ~23,000+ outlets with tinting machines at ~18,000 of these, i.e. a coverage ratio of 78%.

Market share

In FY24, Akzo Nobel's decorative paints revenue had a share of 5.1% within the top 5 company's decorative revenue. Its market share has fluctuated between 5.0%-6.5% over the last 5 years.

Exhibit 122: Akzo Nobel India's market share within top 5 companies' decorative revenues has fluctuated



Source: Company, ACMIL Research

Investment Rationale

1) Strong global parentage and higher focus on the Indian market

The Akzo Nobel group has a presence in 150 countries and is among the top 3 paint companies globally. It has a focus on premium products and differentiated positions in powder coatings and marine & protective coatings. It is the #1 player in segments such as powder coatings, packaging coatings (can interiors), aerospace coatings, and yacht coatings across the regions where it is present. It has a global market share of ~32% in powder coatings, with the distant second player at 16% share.

Akzo has a global market share of 32% in powder coatings, with the distant second player at 16% share.

The Indian subsidiary benefits from the strong global brands, R&D capabilities, integrated supply chain and global reputation of the Akzo Nobel group. The Indian subsidiary could also benefit from introducing new segments, where the global entity already has expertise.

At the start of CY24, Akzo Nobel group made an organizational change, splitting its grouping of Asian countries into 2 business units- South Asia and ASEAN. India was made a regional headquarters of Akzo Nobel's decorative paints business in the South Asia BU. Mr. Rajiv Rajgopal, Chairman and Managing Director, Akzo Nobel India, was additionally appointed as the new Business Unit (BU) Director - decorative paints, South Asia region. The objective of this split was to ensure adequate focus on key markets of India, Indonesia and Vietnam. About two years ago, the company had also inaugurated a low-cost innovation centre at the Thane R&D facility to create differentiated products catering to South Asia.

The global group's increasing focus on the Indian market, will pave the way for quicker decision making at Akzo Nobel India.

2) Strong growth potential in the coatings business

The coatings business is driven by demand in sectors such as automobiles, infrastructure, oil & gas, renewables, consumer durables, etc. Akzo Nobel India has a diversified presence in industrial coatings, with products catering to multiple sub-segments, all of which are poised for good growth in the coming years.

- i. **Automotive and Specialty coating (ASC):** The company has been increasing its presence by adding more body shop tie-ups for its refinish business. With the automotive sector poised for continued growth in the medium to long term, this segment will contribute to growth.
- ii. **Industrial coatings:** Due to Government's strong focus on building infrastructure projects such as airports, smart cities, metro, railways, there is an uptick in demand for coated steel. PLI scheme for promoting the manufacturing of specialty steel in India and adjustment in basic custom duty on steel will lead to higher demand for coil coatings.
- iii. **Powder coatings:** Increase in penetration of domestic appliances such as ACs, refrigerators, geysers, etc. is leading to demand for powder coatings, along with demand in architectural and automotive coatings.
- iv. **Marine and protective coatings:** As per the company's estimate, the protective coatings market is likely to grow by 8.0% to 10.0% in the coming years. This will be driven by the infrastructure, power, renewable energy and export markets. Increasing trade and coastal activity has lead to increased demand for shipbuilding and repair. The Government's Sagarmala initiative to promote development of ports and enhance coastal shipping is creating a higher demand for anti-corrosion and anti-fouling coatings. As a result, Akzo Nobel India will continue to see strong demand for its marine and protective coatings.
- v. **New business verticals:** Globally, Akzo Nobel has a 70.0% share in aerospace related maintenance, repair, and operations (MRO) business. This is a highly profitable business which is yet to come into India. With plans to commence this business in India in the next few years, it will add another growth vertical for Akzo Nobel India.

3) Distribution expansion to aid growth in decorative paints segment

Akzo plans to increase its presence, which is 5500 towns currently, to 8,000 towns in about two years.

In the last few years, the company aggressively expanded its retail presence. It's products were available in just about 2,000 towns in 2018, which was taken up to ~5,500 towns at present. The company plans to increase it to 8,000 towns in about two years. The company is targeting ~290 districts where it had zero presence as of the start of FY24.

Investment Rationale

4) Strong presence in premium segments

The company's endeavor is to take the mass segment market share to 5-6% from 2-3% currently.

Akzo Nobel India's portfolio is under-indexed in the mass and premium segments, with majority of business coming from premium offering. Within decorative paints, premium constitutes almost 45%-50% of revenue. The company has a much higher market share in premium segment, at 17%-18%, while in the mass segments, it has a market share of just 2%-3%. The company's endeavor is to take the mass segment market share to its overall market share of ~5% to 6%.

While the company is taking efforts to improve presence in economy segments, its stronghold in the premium space will shield the company from any price wars in the economy/mass segments.

Even in the coatings space, the company has strong premiumization focus. In the automotive coatings segment, the company achieved a 100% conversion for all Hyundai India bodyshops from solvent basecoat to its premium product, Sikkens waterborne basecoat.

Key risks

1. Uncertainty due to announcement of portfolio review by the parent

On 4th October 2024, The parent company, Akzo Nobel NV, announced that it is conducting a strategic review of its portfolio so as to focus on its core coatings business, starting with decorative paints in South Asia. As per the parent, the review will explore various strategic options ranging from partnerships or joint ventures through to mergers or divestments. The intent is to look at markets where there is a potential for consolidation and Akzo Nobel does not have a leading market position in the country. There is no timeline attached to this review.

Due to this review in process, it is difficult to assess how the company would shape up post conclusion of the review.

2. Strong revival in mass/ economy segments at the expense of premium

Akzo Nobel India has a high revenue contribution from the premium segment. If the overall demand in the market skews towards the mass/ economy segments, Akzo Nobel India may see lower than industry growth.

3. Change in portfolio mix

Currently, Akzo Nobel India is underindexed in the mass/economy segments compared to the industry. It has a 45%-50% salience of premium products in its decorative portfolio. As some mass market segments are seeing strong growth, the company wants to expand its product portfolio in the entry-level segment. As this pans out, there will be pressure on the operating margins.

4. Change in strategy of the global parent group

Currently, Akzo Nobel has a strong focus on the Indian market due to the strong growth potential. As a result, it has made organizational changes to aid speedy decision making in India. Any change in priorities/ strategies at the global entity level could impact performance trajectory of the local entity.

5. Royalty payments

Akzo Nobel India's royalty payments to the parent entity have gradually inched up from 1.6% of revenue in FY13 to 3.6% in FY24. Any further increase in royalty % to be paid can impact profitability.

Quarterly performance:

| Y/E March (Rs mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 9,377 | 9,262 | 9,868 | 9,514 | 9,992 | 9,563 | 10,327 | 9,734 | 10,363 |
| Raw Material Cost | 5,721 | 5,708 | 6,019 | 5,453 | 5,693 | 5,293 | 5,776 | 5,466 | 5,737 |
| Employee Cost | 760 | 753 | 765 | 729 | 832 | 825 | 822 | 799 | 886 |
| Other Expenses | 1,685 | 1,737 | 1,655 | 1,785 | 1,846 | 2,027 | 2,065 | 1,852 | 2,051 |
| Total Expenses | 8,166 | 8,198 | 8,439 | 7,967 | 8,371 | 8,145 | 8,663 | 8,117 | 8,674 |
| EBITDA | 1,211 | 1,064 | 1,429 | 1,547 | 1,621 | 1,418 | 1,664 | 1,617 | 1,689 |
| <i>EBITDA (%)</i> | <i>12.9</i> | <i>11.5</i> | <i>14.5</i> | <i>16.3</i> | <i>16.2</i> | <i>14.8</i> | <i>16.1</i> | <i>16.6</i> | <i>16.3</i> |
| Depreciation | 193 | 196 | 211 | 225 | 193 | 211 | 201 | 218 | 218 |
| EBIT | 1,018 | 868 | 1,218 | 1,322 | 1,428 | 1,207 | 1,463 | 1,399 | 1,471 |
| <i>EBIT (%)</i> | <i>10.9</i> | <i>9.4</i> | <i>12.3</i> | <i>13.9</i> | <i>14.3</i> | <i>12.6</i> | <i>14.2</i> | <i>14.4</i> | <i>14.2</i> |
| Finance cost | 24 | 34 | 26 | 57 | 34 | 27 | 32 | 32 | 25 |
| Other Income | 41 | 48 | 124 | 61 | 82 | 89 | 84 | 103 | 97 |
| PBT before exceptional items | 1,035 | 882 | 1,316 | 1,326 | 1,476 | 1,269 | 1,515 | 1,470 | 1,543 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | 1,035 | 882 | 1,316 | 1,326 | 1,476 | 1,269 | 1,515 | 1,470 | 1,543 |
| Tax | 266 | 228 | 342 | 372 | 377 | 327 | 377 | 383 | 397 |
| <i>Tax Rate (%)</i> | <i>25.7</i> | <i>25.9</i> | <i>26.0</i> | <i>28.1</i> | <i>25.5</i> | <i>25.8</i> | <i>24.9</i> | <i>26.1</i> | <i>25.7</i> |
| Rep. PAT | 769 | 654 | 974 | 954 | 1,099 | 942 | 1,138 | 1,087 | 1,146 |
| <i>PAT margin</i> | <i>8.2</i> | <i>7.1</i> | <i>9.9</i> | <i>10.0</i> | <i>11.0</i> | <i>9.9</i> | <i>11.0</i> | <i>11.2</i> | <i>11.1</i> |
| Reported EPS (Rs) | 16.9 | 14.4 | 21.4 | 20.9 | 24.1 | 20.7 | 25.0 | 23.9 | 25.2 |
| Adj. PAT | 769 | 654 | 974 | 954 | 1,099 | 942 | 1,138 | 1,087 | 1,146 |
| <i>Adj. PAT margin</i> | <i>8.2</i> | <i>7.1</i> | <i>9.9</i> | <i>10.0</i> | <i>11.0</i> | <i>9.9</i> | <i>11.0</i> | <i>11.2</i> | <i>11.1</i> |
| Adj. EPS (Rs) | 16.9 | 14.4 | 21.4 | 20.9 | 24.1 | 20.7 | 25.0 | 23.9 | 25.2 |

Sources: Company, ACMIL research

| YoY Growth (%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 49.7 | 25.0 | 7.9 | 9.7 | 6.6 | 3.2 | 4.7 | 2.3 | 3.7 |
| EBITDA | 33.7 | 12.1 | 11.7 | 29.7 | 33.9 | 33.3 | 16.4 | 4.5 | 4.2 |
| Adj. PAT | 1.3 | 17.4 | 16.2 | 30.3 | 42.9 | 44.0 | 16.8 | 13.9 | 4.3 |
| Adj. EPS | 1.3 | 17.4 | 16.3 | 30.3 | 42.9 | 44.1 | 16.8 | 14.0 | 4.4 |

Sources: Company, ACMIL research

| QoQ Growth(%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 8.1 | (1.2) | 6.5 | (3.6) | 5.0 | (4.3) | 8.0 | (5.7) | 6.5 |
| EBITDA | 1.5 | (12.1) | 34.3 | 8.3 | 4.8 | (12.5) | 17.3 | (2.8) | 4.5 |
| Adj. PAT | 5.0 | (15.0) | 48.9 | (2.1) | 15.2 | (14.3) | 20.8 | (4.5) | 5.4 |
| Adj. EPS | 5.1 | (14.9) | 48.9 | (2.1) | 15.2 | (14.2) | 20.7 | (4.5) | 5.4 |

Sources: Company, ACMIL research

Q1FY25 performance highlights

| Y/E March (Rs in mn) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | Consensus Est. | Var% |
|------------------------------------|---------------|--------------|------------|--------------|------------|----------------|------|
| Net Revenue | 10,363 | 9,992 | 3.7 | 9,734 | 6.5 | NA | NA |
| Expenses: | | | | | | | |
| Total Raw Material Cost | 5,737 | 5,693 | 0.8 | 5,466 | 5.0 | | |
| Employee Cost | 886 | 832 | 6.5 | 799 | 10.9 | | |
| Other Expenses | 2,051 | 1,846 | 11.1 | 1,852 | 10.7 | | |
| Total Operating Cost | 8,674 | 8,371 | 3.6 | 8,117 | 6.9 | | |
| EBITDA | 1,689 | 1,621 | 4.2 | 1,617 | 4.5 | NA | NA |
| <i>EBITDA (%)</i> | 16.3 | 16.2 | 8 bps | 16.6 | -31 bps | | |
| Depreciation | 218 | 193 | 13.0 | 218 | 0.0 | | |
| EBIT | 1,471 | 1,428 | 3.0 | 1,399 | 5.1 | | |
| Other Income | 97 | 82 | 18.3 | 103 | (5.8) | | |
| Interest | 25 | 34 | (26.5) | 32 | (21.9) | | |
| Extraordinary Items | 0 | 0 | NA | 0 | NA | | |
| PBT | 1,543 | 1,476 | 4.5 | 1,470 | 5.0 | | |
| Tax | 397 | 377 | 5.3 | 383 | 3.7 | | |
| <i>Effective Tax Rate (%)</i> | 25.7 | 25.5 | 19 bps | 26.1 | -33 bps | | |
| RPAT | 1,146 | 1,099 | 4.3 | 1,087 | 5.4 | | |
| APAT | 1,146 | 1,099 | 4.3 | 1,087 | 5.4 | NA | NA |
| <i>APAT (%)</i> | 11.1 | 11.0 | 6 bps | 11.2 | -11 bps | | |
| <i>Reported EPS (diluted) (Rs)</i> | 25.2 | 24.1 | 4.4 | 23.9 | 5.4 | | |
| Adj. EPS (Rs) | 25.2 | 24.1 | 4.4 | 23.9 | 5.4 | | |

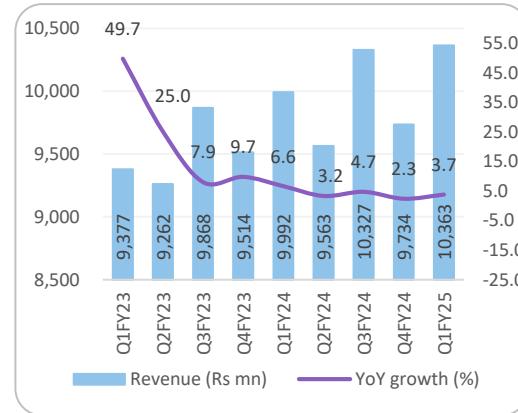
Sources: Company, Bloomberg, ACMIL research

Akzo Nobel India reported its highest-ever quarterly revenue, gross margin, EBIT and PAT in Q1FY25. Revenue for Q1FY25 grew by 3.7% YoY/ 6.5% QoQ to Rs 10,363 mn. In terms of volumes, the company saw a double-digit growth, led by the B2B segment. EBITDA grew by 4.2% YoY/ 4.5% QoQ to Rs 1,689 mn. EBITDA margin saw an 8 bps YoY improvement but moderated by 31 bps QoQ to 16.3%. Gross margin expanded by 162 bps YoY/79 bps QoQ due to cost initiatives and sourcing efficiency. Net profit grew by 4.3% YoY/ 5.4% QoQ to Rs 1,146 mn.

- Volume growth:** Akzo Nobel India saw an overall double-digit volume growth in the quarter. The B2C segment was impacted and grew in high single digits (~9% YoY) while the B2B business grew in double digits (~12% YoY). Revenue growth was lower due to impact of price cuts taken earlier.
- Decorative paints:** The segment saw a greater negative impact in April, while it improved in May and June.
- Gap in volume vs value:** The management expects the trend of value growth lagging volume growth would continue till the end of this year.
- Geography-wise growth:** In Q1, the industry saw a subdued demand environment in the southern India while the west and east regions of the country had lesser headwinds this time around.
- Margin improvement:** In the quarter, gross margin has improved by ~160 bps YoY. This improvement is despite an uptick in raw material prices May onwards, aided by favourable product mix and sourcing efficiency.
- Input costs and product pricing actions:** Raw material cost has started seeing an uptick and the company has announced cumulative price hikes of ~1.5% in July and August.
- Strategy:** The company is more focussed on its existing customers and increasing share of wallet within that. In order to gain and maintain its market share in the decorative paints segment, the company has taken steps such as celebrity endorsement, dialing up its warranty program – Dulux assurance and implementing dealer-focussed programmes.
- New launches:** The company launched Dulux VT Eterna, a proposition in the uber premium category. The share of new products in revenue has increased from 3%–4% over the last few years has increased to 6%–7%. The target is to increase it further to double digits.
- Entering new segments:** Akzo Nobel India will enter the construction chemicals segment in the later part of this year and also in some of the mass/ economy segments where the company was not present earlier.
- Details related to distribution:** The company has tinting machines in almost 16,500–17,000 of the total 23,000 retail outlets. It plans to expand the distribution reach to 25,000 outlets by early next year. The management is prioritising focus on avoiding attrition in the face of higher competition intensity.
- Competition intensity:** In the industrial segment, the competition intensity has gone up due to slower growth in the decorative segment.
- Share of premium:** In the decorative paints segment, Akzo Nobel has a very high share of premium products at 45.0%–50.0%. The company is underrepresented in the mass and economy segments.

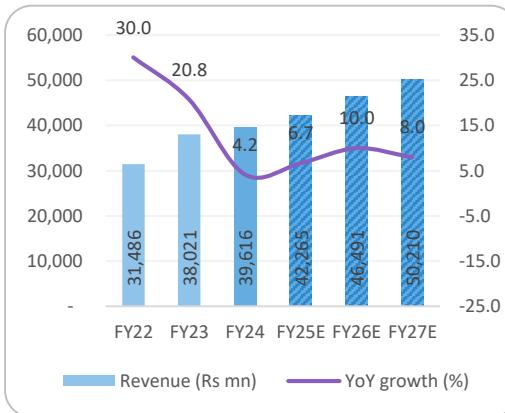
Story in charts:

Exhibit 123: Mid-to-low single digit revenue growth in last 4 quarters



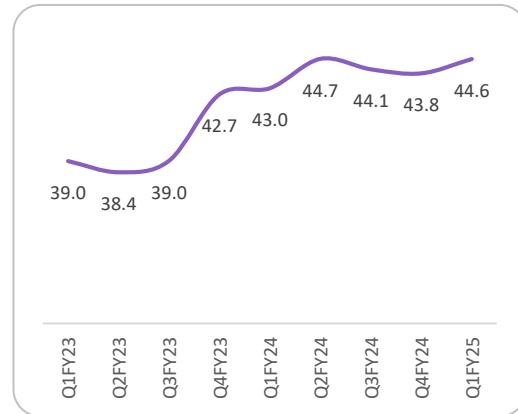
Source: Company, ACMIL Research

Exhibit 124: We expect revenue to grow by 8.9% CAGR over FY24-FY27E



Source: Company, ACMIL Research

Exhibit 125: Gross margins (%) improved in last 6 quarters due to RM cost reduction, favourable mix and sourcing efficiencies



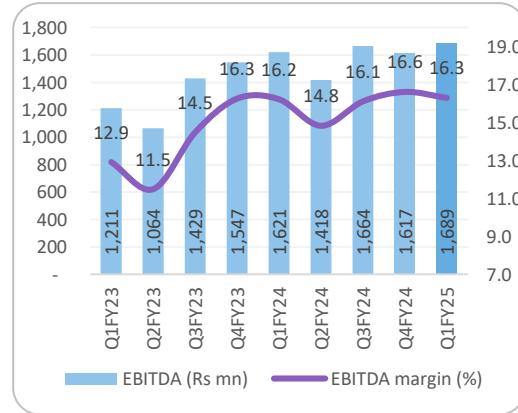
Source: Company, ACMIL Research

Exhibit 126: We expect moderation in gross margins (%) as the share of economy products is expected to increase



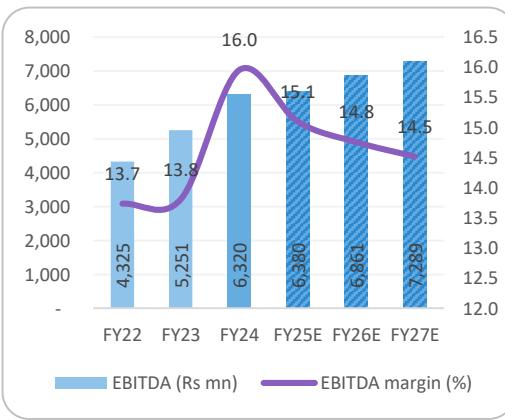
Source: Company, ACMIL Research

Exhibit 127: Employee costs and other expenses inched up in FY24, which partly offset the effect of GM improvement



Source: Company, ACMIL Research

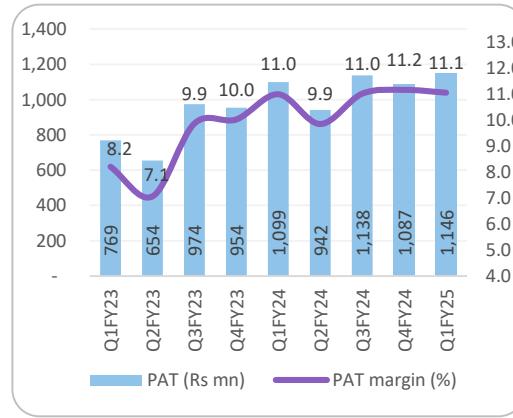
Exhibit 128: We expect margin contraction due to increased focus on economy segments



Source: Company, ACMIL Research

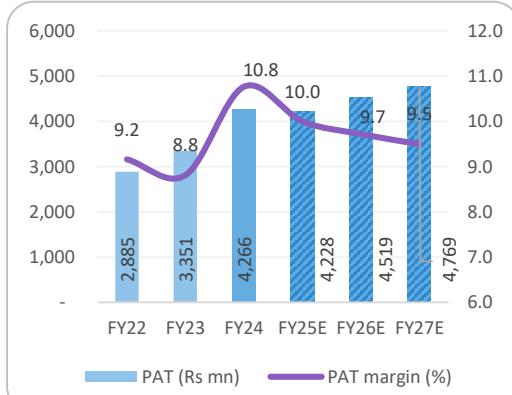
Story in charts:

Exhibit 129: PAT margin inched up due to operating performance



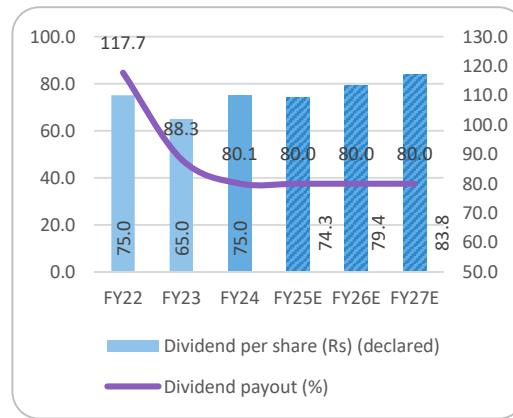
Source: Company, ACMIL Research

Exhibit 130: We expect Adj. PAT CAGR to be muted at 3.8% over FY24-FY27E



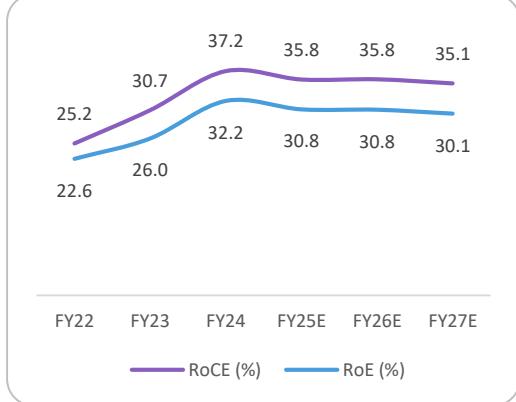
Source: Company, ACMIL Research

Exhibit 131: Dividend payout to remain strong



Source: Company, ACMIL Research

Exhibit 132: Return ratios to be impacted due to changing product mix impacting margins



Source: Company, ACMIL Research

Summary of projections

We expect revenue/ EBITDA/ Adj. PAT CAGR of 8.2%/4.9%/3.8% over FY24-FY27E.

Revenue growth will be supported by both decorative and industrial segments.

We expect EBITDA CAGR to be lower due to pressure on margins, impacted by increase in competitive intensity and growing share of economy segment. We expect EBITDA margins to contract by 86bps/ 34bps/24bps YoY for FY25E/FY26E/FY27E, respectively.

Valuation and View:

The company has a diversification benefit due to presence in decorative and industrial paints, and has a superior product mix in decorative. As a result, it has among the highest EBITDA margins in the industry. However, going ahead, as the company enters into economy segments, it will see margin contraction. The bigger concern is the portfolio review announced by the parent company, where in it is looking at possible partnerships/ divestment of its India decorative business, in order to focus on its global strength area of coatings. While the business is profitable, it is not a market leadership position, hence the decision to review the business. With this, there is an uncertain event in the near term, which may have significant impact on company's performance and valuations. As a result, we would prefer to wait and watch the situation unfold.

Historically, the stock has on average traded at 30.9x for last 5 years and 28.1x for last 2 years.

Despite positives in terms of growth potential, uncertainty due to portfolio review by parent is concerning. Additionally, the company will see margin contraction due to change in product mix. As a result, we believe the company's current valuation multiples of 40.2x/37.6x/ 35.7x based on FY25E/FY26E/FY27E EPS, respectively, may not be sustainable.

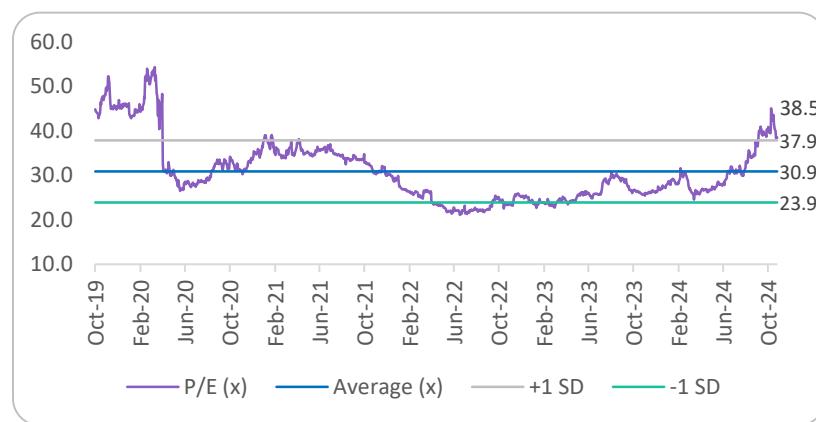
We assign a P/E of 33x to the Sep-26E EPS of Rs 103.3, arriving at a price target of Rs 3,410. With a potential downside of 8.2%, we recommend 'Hold' for the shares of Akzo Nobel India.

Exhibit 133: Valuation Summary

| Valuation | Rs |
|-------------------------------------|--------------|
| Adj. EPS (4 quarter ending Sep-26E) | 103.3 |
| P/E (x) | 33.0 |
| Target price | 3,410 |
| CMP | 3,736 |
| Upside potential (%) | (8.7) |
| Rating | Hold |

Source: Company, ACMIL Research

Exhibit 134: 1-year forward P/E (x)



Sources: Company, ACMIL research

Thematic Report- Paints

29th October 2024

Akzo Nobel India Ltd (AKZO)

Asit C. Mehta
INVESTMENT INTERMEDIATES LTD.
A Pantomath Group Company

Financial (Consolidated)

Income Statement

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 38,021 | 39,616 | 42,265 | 46,491 | 50,210 |
| <i>Growth (%)</i> | 20.8 | 4.2 | 6.7 | 10.0 | 8.0 |
| RM cost | 22,901 | 22,228 | 23,840 | 26,381 | 28,662 |
| Employee cost | 3,011 | 3,281 | 3,507 | 3,765 | 4,017 |
| Other expenses | 6,858 | 7,787 | 8,537 | 9,484 | 10,243 |
| Total expenses | 32,770 | 33,296 | 35,884 | 39,630 | 42,921 |
| EBITDA | 5,251 | 6,320 | 6,380 | 6,861 | 7,289 |
| <i>Growth (%)</i> | 21.4 | 20.4 | 1.0 | 7.5 | 6.2 |
| <i>EBITDA margin (%)</i> | 13.8 | 16.0 | 15.1 | 14.8 | 14.5 |
| Depreciation | 825 | 823 | 937 | 1,063 | 1,199 |
| EBIT | 4,426 | 5,497 | 5,443 | 5,798 | 6,090 |
| <i>EBIT margin (%)</i> | 11.6 | 13.9 | 12.9 | 12.5 | 12.1 |
| Interest expense | 141 | 125 | 125 | 125 | 125 |
| Other income | 274 | 358 | 345 | 370 | 411 |
| PBT before exception items | 4,559 | 5,730 | 5,663 | 6,042 | 6,376 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| PBT | 4,559 | 5,730 | 5,663 | 6,042 | 6,376 |
| Tax | 1,208 | 1,464 | 1,435 | 1,523 | 1,607 |
| <i>Effective tax rate</i> | 26.5 | 25.5 | 25.3 | 25.2 | 25.2 |
| Rep. PAT | 3,351 | 4,266 | 4,228 | 4,519 | 4,769 |
| <i>Rep. PAT Growth (%)</i> | 15.5 | 27.3 | -0.9 | 6.9 | 5.5 |
| <i>Rep. PAT (%)</i> | 8.8 | 10.8 | 10.0 | 9.7 | 9.5 |
| Adj. PAT | 3,351 | 4,266 | 4,228 | 4,519 | 4,769 |
| <i>Adj. PAT Growth (%)</i> | 16.1 | 27.3 | -0.9 | 6.9 | 5.5 |
| <i>Adj. PAT (%)</i> | 8.8 | 10.8 | 10.0 | 9.7 | 9.5 |

Source: Company, ACMIL Research

Balance Sheet

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 455 | 455 | 455 | 455 | 455 |
| Reserves & surplus | 12,708 | 12,844 | 13,657 | 14,794 | 15,948 |
| Net Worth | 13,163 | 13,299 | 14,112 | 15,249 | 16,403 |
| Non-current borrowings (incl. lease liabilities) | 530 | 451 | 451 | 451 | 451 |
| Other financial liabilities | 147 | 20 | 20 | 20 | 20 |
| Other non-current liabilities | 926 | 1,034 | 1,034 | 1,034 | 1,034 |
| Non current liabilities | 1,603 | 1,505 | 1,505 | 1,505 | 1,505 |
| Trade payables | 8,634 | 9,975 | 10,698 | 11,839 | 12,862 |
| Lease liabilities | 167 | 153 | 153 | 153 | 153 |
| Other financial liabilities | 886 | 1,008 | 1,008 | 1,008 | 1,008 |
| Other current liabilities | 2,952 | 3,099 | 3,099 | 3,099 | 3,099 |
| Current liabilities | 12,639 | 14,235 | 14,958 | 16,099 | 17,122 |
| Equity & liabilities | 27,405 | 29,039 | 30,575 | 32,853 | 35,030 |
| Net PPE | 4,098 | 4,367 | 4,698 | 5,029 | 5,336 |
| CWIP | 727 | 1,191 | 1,191 | 1,191 | 1,191 |
| Intangible assets | 41 | 30 | 30 | 30 | 30 |
| RoU assets | 970 | 863 | 863 | 863 | 863 |
| Financial assets | 91 | 101 | 101 | 101 | 101 |
| Other non current assets | 2,796 | 3,271 | 3,271 | 3,271 | 3,271 |
| Non current assets | 8,723 | 9,823 | 10,154 | 10,485 | 10,792 |
| Inventories | 5,979 | 6,115 | 6,558 | 7,258 | 7,885 |
| Trade receivables | 5,523 | 5,754 | 6,139 | 6,753 | 7,293 |
| Cash | 3,147 | 2,737 | 3,114 | 3,748 | 4,450 |
| Bank balances | 2,496 | 2,502 | 2,502 | 2,502 | 2,502 |
| Other financial assets | 139 | 110 | 110 | 110 | 110 |
| Other current assets | 1,398 | 1,998 | 1,998 | 1,998 | 1,998 |
| Current assets | 18,682 | 19,216 | 20,422 | 22,368 | 24,238 |
| Total assets | 27,405 | 29,039 | 30,575 | 32,853 | 35,030 |

Source: Company, ACMIL Research

Cash Flow

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 4,559 | 5,730 | 5,663 | 6,042 | 6,376 |
| Depreciation | 825 | 823 | 937 | 1,063 | 1,199 |
| Net Interest Income/Expense | (114) | (231) | (220) | (245) | (286) |
| Other adjustments | 21 | 37 | 0 | 0 | 0 |
| Chg in working cap | 996 | 204 | (105) | (173) | (144) |
| Tax | (1,425) | (1,708) | (1,435) | (1,523) | (1,607) |
| Net Operating Cash flow | 4,862 | 4,855 | 4,840 | 5,166 | 5,538 |
| Capex | (1,043) | (1,185) | (1,268) | (1,395) | (1,506) |
| Free Cash Flow | 3,819 | 3,670 | 3,573 | 3,771 | 4,032 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Interest/ dividend income | 892 | 325 | 345 | 370 | 411 |
| Investing Cash flow | (151) | (860) | (923) | (1,025) | (1,095) |
| Debt | (165) | (175) | 0 | 0 | 0 |
| Dividend paid | (2,732) | (4,099) | (3,415) | (3,382) | (3,616) |
| Interest paid | (120) | (120) | (125) | (125) | (125) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Financing Cash flow | (3,017) | (4,394) | (3,540) | (3,507) | (3,741) |
| Opening cash position | 1,450 | 3,147 | 2,737 | 3,114 | 3,748 |
| Net chg in cash | 1,694 | (399) | 377 | 633 | 702 |
| Effect of exchange rate fluctuations | 3 | (11) | 0 | 0 | 0 |
| Closing cash position | 3,147 | 2,737 | 3,114 | 3,748 | 4,450 |

Source: Company, ACMIL Research

Key Ratios

| YE March (Rs) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|--------|--------|--------|--------|--------|
| EPS | 73.6 | 93.7 | 92.9 | 99.3 | 104.8 |
| CEPS | 106.8 | 106.6 | 106.3 | 113.5 | 121.6 |
| BVPS | 289.0 | 292.0 | 309.9 | 334.9 | 360.3 |
| DPS | 65.0 | 75.0 | 74.3 | 79.4 | 83.8 |
| Valuations (x) | | | | | |
| P/E | 50.8 | 39.9 | 40.2 | 37.6 | 35.7 |
| P/BV | 12.9 | 12.8 | 12.1 | 11.2 | 10.4 |
| EV/Sales | 4.4 | 4.2 | 3.9 | 3.6 | 3.3 |
| EV/EBITDA | 31.7 | 26.3 | 26.1 | 24.3 | 22.8 |
| Dividend Yield (%) | 1.9 | 2.2 | 2.2 | 2.3 | 2.5 |
| Return Ratio (%) | | | | | |
| RoCE | 30.7 | 37.2 | 35.8 | 35.8 | 35.1 |
| RoE | 26.0 | 32.2 | 30.8 | 30.8 | 30.1 |
| Gearing Ratio (x) | | | | | |
| Net Debt/Equity | (0.2x) | (0.3x) | (0.3x) | (0.3x) | (0.3x) |
| Net Debt/EBITDA | (0.7x) | (0.6x) | (0.6x) | (0.7x) | (0.7x) |
| Working Cap Cycle (days) | 10.7 | (10.4) | (10.4) | (10.4) | (10.4) |
| Profitability (%) | | | | | |
| EBITDA Margin | 13.8 | 16.0 | 15.1 | 14.8 | 14.5 |
| EBIT Margin | 11.6 | 13.9 | 12.9 | 12.5 | 12.1 |
| Adj. PAT Margin | 8.8 | 10.8 | 10.0 | 9.7 | 9.5 |

Source: Company, ACMIL Research

Indigo Paints Ltd. (INDIGOPN)

Greens (i.e. positives) set off by the reds (i.e. concerns)

We initiate coverage on Indigo Paints with a Hold rating with a price target of Rs 1,710 and potential upside of 4.1%. We believe the company will continue to see stronger than industry growth in the next couple of years along with margin improvement from lower ad spends and freight costs as % of sales. We also think the entry in the WPCC segment will be a growth driver for the company. However, we think there are challenges to improve throughput per dealer in the long term owing to increased competition in the industry. As a result, we think the risk-reward is balanced.

Smallest listed player in the paints segment growing faster than the industry

Indigo Paints holds a #5 position in the organised paints market. Owing to its focus on expanding distribution in terms of number of dealers and tinting machines, the company has seen stronger than industry growth in terms of topline. We expect the trend to continue in the next couple of years.

Margin expansion to come from improving scale and some logistics benefits due to the new plant

Ad spends as a % of sales have declined for the last 5 years and will continue the downward trajectory as the scale of business improves. This will add to the EBITDA margins. Additionally, increasing capacity in Rajasthan will help service demand in the north and west India, which will help to reduce freight costs slightly.

However, continued increase in revenue throughput likely a concern in the medium term

We believe that increased competitive intensity in the paints industry, from both existing and new larger players may limit the increase in presence of Indigo Paints' tinting machines in the medium to long term. As dealers have limited floor space, they are able to install a maximum of 2-3 tinting machines. As a result, increasing the number of tinting machines beyond a certain point is likely to get difficult. This will put a cap on increase in revenue throughput, which is crucial for sustained growth.

Valuation & Outlook

We expect revenue/ EBITDA/ Adj. PAT CAGR of 19.9%/ 20.7%/ 19.2% over FY24-FY27E. This is the highest expected growth among the top 5 companies, as was seen in the CAGR between FY20-FY24. The company will also see margin expansion due to lower ad spends and freight costs in relation to its sales, as it scales up in size.

In the last 2.5 years, the stock has traded at an average P/E of 45.7x. The stock is currently trading at 50.5x/41.7x/32.1x its FY25E/FY26E/FY27E Adj. EPS, respectively. We believe the company is likely to see greater impact due to heightened competition. New players with deep pockets and aggressive targets can achieve a larger scale than Indigo Paints in a few years, which may limit Indigo Paints' scope for distribution and tinting machine expansion. We value the company based on 39x its Sep-26E EPS of Rs 44 and arrive at a price target of Rs 1,710. With an upside potential of 4.1%, our rating for the shares of Indigo Paints is 'Hold'.

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------|--------|--------|--------|--------|--------|
| Revenue | 10,733 | 13,061 | 15,604 | 19,093 | 22,530 |
| Growth (%) | 18.5 | 21.7 | 19.5 | 22.4 | 18.0 |
| EBITDA | 1,813 | 2,381 | 2,735 | 3,387 | 4,190 |
| EBITDA (%) | 16.9 | 18.2 | 17.5 | 17.7 | 18.6 |
| Adj. PAT | 1,319 | 1,473 | 1,551 | 1,881 | 2,442 |
| Adj. EPS | 27.7 | 30.9 | 32.5 | 39.4 | 51.2 |
| Adj. EPS Growth (%) | 57.0 | 11.6 | 5.3 | 21.3 | 29.8 |
| ROE (%) | 18.5 | 17.6 | 16.0 | 16.7 | 18.5 |
| ROCE (%) | 20.0 | 20.9 | 19.2 | 20.2 | 22.5 |
| P/E (x) | 59.4 | 53.2 | 50.5 | 41.7 | 32.1 |

Source: Company, ACMIL Research

Hold

Target: ₹1,710

Key Data

| | |
|--------------------------|-------------|
| Bloomberg code: | KNPL IN |
| Target price (₹) | 1,710 |
| CMP (₹) | 1,643 |
| Upside/ (Downside) (%) | 4.1 |
| Rating: | Hold |
| Shares outstanding (mn): | 47.6 |
| Mcap (Rs bn): | 78 |
| 52-week H/L (Rs): | 1,689/1,250 |

Price Performance (%)

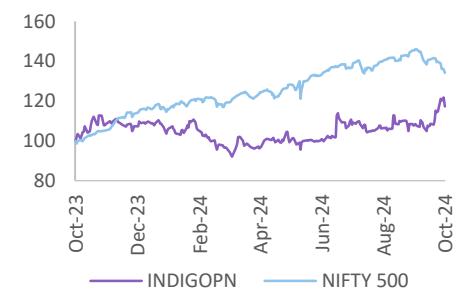
| | |
|-----------|------|
| 1 month | 11.1 |
| 3 months | 10.3 |
| 12 months | 18.1 |

Shareholding Pattern (%)

| | Mar'24 | Jun'24 | Sep'24 |
|--------------|--------|--------|--------|
| Promoter | 53.9 | 53.9 | 53.9 |
| FII | 7.7 | 8.3 | 12.3 |
| DII | 2.0 | 1.1 | 16.2 |
| Public/other | 36.4 | 36.7 | 17.6 |
| Pledge | | | |

Sources: BSE

Performance vs. Nifty 500



Sources: BSE

Analyst

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Company Overview

#5 player in the domestic decorative paints market.

- Indigo Paints Limited, the 5th largest company in the organised paints market in India, was incorporated at Pune, Maharashtra on March 28, 2000. Two decades later, the company launched its IPO and went public in August, 2020.
- In its initial years, the company produced just one product – cement paints. Eventually, it entered different categories within decorative paints such as putty, emulsions, enamels, primers, distempers, etc. In FY24, Indigo Paints entered the waterproofing and construction chemicals segment with the acquisition of 51% stake in Apple Chemie.
- The company boasts of a strong differentiated products portfolio, which contributes 31% of its overall revenue. Its 'differentiated' products line includes metallic emulsions, tile coat emulsions, bright ceiling coat emulsions, floor coat emulsions, dirtproof & waterproof exterior laminate, exterior and interior acrylic laminate, and PU super gloss enamel.

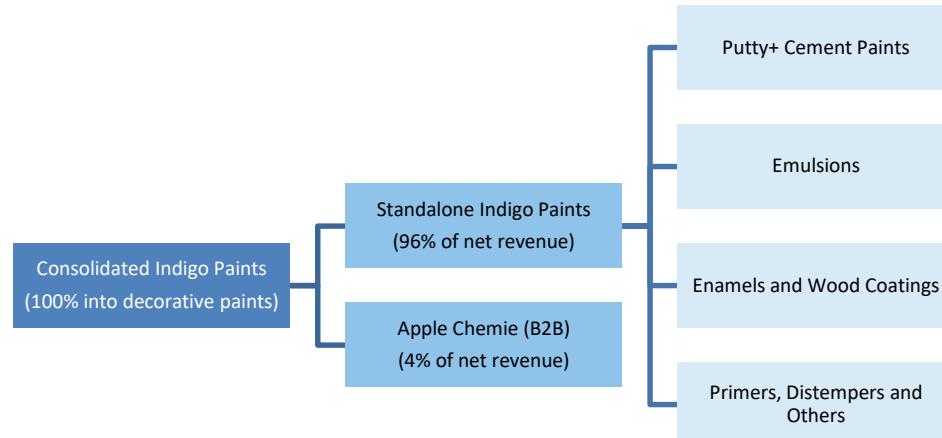
Business Segments

Indigo Paints' entire revenue is derived from Decorative paints. Within decorative paints, it categorises its business into 4 subsegments. These are 1) putty + cement paints, 2) emulsions, 3) enamels and wood coatings, 4) primers, distempers, and others.

With the acquisition of 51% stake in Apple Chemie, Indigo Paints' offerings diversified into waterproofing and construction chemicals (WPCC) products for the B2B segment. Making use of Apple Chemie's expertise in the WPCC area, Indigo Paints has launched WPCC products for the retail segment, marketed under the Indigo brand.

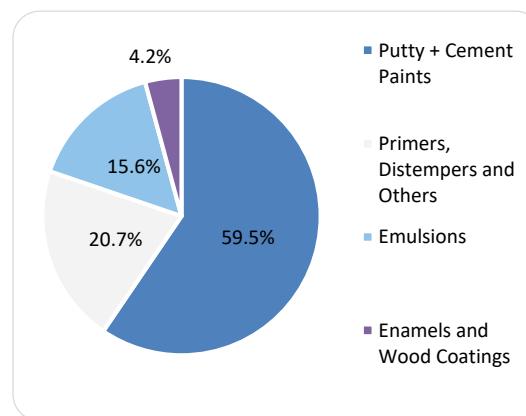
Exhibit 135: Revenue segments

Indigo Paints' entire revenue is derived from Decorative paints. Its subsegments include: 1) putty + cement paints, 2) emulsions, 3) enamels and wood coatings, 4) primers, distempers, and others.



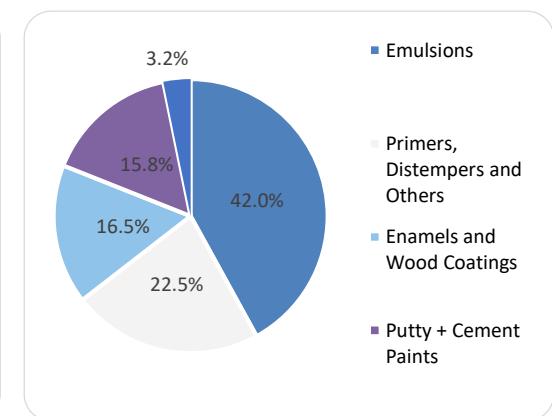
Source: Company, ACMIL Research

Exhibit 136: Volume split (standalone)



Source: Company, ACMIL Research

Exhibit 137: Gross revenue split (consolidated)



Source: Company, ACMIL Research

Indigo Paints markets its whole spectrum of products under the same label, in order to solidify its brand recall. Following are the product segments that Indigo Paints has to offer -

1. Putty + Cement Paints

- This segment contributes the highest share (59.5% in FY24) to the company's sales volume. However, due to the lowest average selling price of these products, it has the smallest revenue contribution at 15.8% in FY24.

2. Emulsions

- The company offers interior and exterior emulsions across the economy, premium and luxury segments.
- Several of Indigo Paints' differentiated products are in the emulsions segment. These include Metallic emulsions, Tile Coat emulsions, Bright Ceiling Coat emulsions, Floor Coat emulsions, etc. In FY24, this segment constituted 15.6% / 22.5% share of volume/revenue, respectively.

3. Enamels and wood coatings

- These are the most premium products with highest average selling price. Contributing just 4.2% to the volumes in FY24, due to the high ASP, revenue contribution was 16.5%.
- It offers products across PU enamel, satin enamel and epoxy enamel for across wooden and metal surfaces. As part of its differentiated product offering, it has products such as Dirtproof & Waterproof Exterior Laminate, Exterior and Interior Acrylic Laminate, and PU Super Gloss Enamel.

4. Primers, distempers and others

- This is a key segment for the company, as it has the second highest contribution to both volumes and revenue.

5. Waterproofing and construction chemicals (WPCC)

- Indigo Paints entered this segment in FY24 by acquiring 51% stake in Apple Chemie India Pvt. Ltd. Apple Chemie caters to the B2B segment, predominantly in the Indian infrastructure segment, in the state of Maharashtra.
- Its offerings include wax & resin compounds, sealants, pumping aids, mould release agents, admixtures, etc. catering to use cases of roads, bridges, irrigation, infrastructure and real estate projects. It has supplied materials for key projects such as the Versova Bandra Sealink, Mumbai Trans Harbour, CIDCO PMAY, Samruddhi Mahamarg, Atal Setu, Goa etc.
- Post acquisition, Apple Chemie is now expanding beyond Maharashtra and setting up marketing teams in states such as Karnataka, Bihar, Telangana, Tamil Nadu, Orissa, West Bengal, Madhya Pradesh and Delhi (NCR Region).
- With access to the expertise on Apple Chemie, Indigo Paints has introduced WPCC products specifically for retail segment. The products offered include Leakproof emulsions, Damp Seal primer, Aquashield, Crack heal paste, Dampstop 2K, polyrepair and superseal. These products already contribute ~4%-5% of the company's revenue, with target to increase it to ~8-10% in the medium term.

The newly introduced WPCC products in the retail channels now contribute ~4%-5% to revenue. The target is to achieve a revenue salience of ~8%-10% fro this segment in the medium term.

Exhibit 138: Key products in decorative paints segment

- Interior Range



Luxury Interior Emulsion

Soft glow finish, superior washability, and high stain resistance.



Premium Interior Sheen Emulsion

Easy to clean, stain-resistant, excellent hiding capacity, anti-fungal.



Premium Interior Emulsion

Extra smooth finish, high opacity, and washability with minimal dirt pick-up.



Neem Protect Interior Emulsion

High opacity Interior wall finish with soft sheen and pleasant smell



Stain Free Interior Emulsion

High opacity Interior wall finish with soft sheen and pleasant smell



Bright Ceiling Coat

Matt finish, superior washability, hides imperfections.



Interior Emulsion

Smooth finish, superior washability, and versatile range of bases.



Acrylic Distemper

Smooth finish, excellent washability, and a variety of shades and bases.



Acrylic Distemper

Smooth finish, excellent washability, and a diverse set of shades and bases.

Source: Company, ACMIL Research

- Exterior Range



Premium XT Sheen Emulsion

Premium quality, superior adhesion, durability, and resistance to fungal/algae attacks



Premium XT Exterior Emulsion

Protection against algae/fungus, rich matte finish, exceptional adhesion and durable



Exterior Sheen Emulsion

Low moisture absorption, resistance to UV, chalking, cracking, and weathering, and high film breathability



Royal Indigocem

Premium-grade cement paint, luxurious matte finish, and availability in a variety of ready-made shades



Floracem

Durable cement paint, value for money, superior hiding power, and matte finish for a polished look



Alfacem

Provides a strong resistance to algal and fungal growth

Source: Company, ACMIL Research

- **'Differentiated' Products Range**



D & W Exterior Laminate

Dirtproof, waterproof, high UV resistance, and anti-algae properties



Floor Coat Emulsion

Abrasion resistance, adhesion strength, washable properties, and resistance against fungal and algal growth



Tile Coat

Durable glossy finish, water resistance, and non-fading colours for extreme conditions



Exterior & Interior Acrylic Laminate

A semi-gloss finish emulsion, premium in quality, washable with low dirt pickup, ideal for both interior & exterior use, and fortified against fungal & algal growth, available in a variety of bases.



Metallic Emulsion

A long-lasting metallic finish that resists fungal and algal growth, maintains its vibrancy even in harsh sunlight, is perfect for both interior & exterior use, and comes in a diverse range of shades.



PU Super Gloss Enamel

Experience lasting gloss and durability with a non-yellowing resin system, versatile interior & exterior use, and best-in-class coverage with anti-fungal properties.

- **Enamel Range**



PU Super Gloss Enamel

Experience lasting gloss and durability with a non-yellowing resin system, versatile interior & exterior use, and best-in-class coverage with anti-fungal properties.



Satin Enamel

Excellent coverage, paired with anti-fungal protection, makes it ideal for both interior & exterior applications.



Self Priming Epoxy Enamel

Ensures effortless application while offering robust protection for metal surfaces in challenging weather conditions.

Source: Company, ACMIL Research

- **Waterproofing Solutions Range**



Leakproof Emulsion

8-Year Warranty, Anti-fungal & Anti-algal, User-Friendly Application



Damp Seal Primer

3-Year Warranty, Superior Damp and Alkali Resistance, Strong Adhesion to Masonry & Cement Surfaces.



Aquashield

3-Year Warranty, Efflorescence Protection, Moisture-Sealing Penetrative Coating



Superseal

Easy Mixing with Concrete/Mortar, High Water Permeability Resistance



Polyprep

Outstanding Waterproofing, Enhances Flexural Strength to Resist Cracking



Dampstop 2K

3-Year Warranty, Damp & Efflorescence Resistance, Positive & Negative Side Handling, Easy Application, Anti-Fungal with Strong Masonry Adhesion

Source: Company, ACMIL Research

Manufacturing capabilities

Manufacturing footprint: The company has five manufacturing plants in three Indian states. Further capacity expansion is underway in Jodhpur. The existing facilities are located in:

- **Water-based**
 - Jodhpur, Rajasthan – 54,000 KLPA
 - Pudukkottai, Tamil Nadu – 50,000 KLPA
 - Kochi, Kerala – 42,500 KLPA
- **Solvent-based**
 - Pudukkottai, Tamil Nadu – 13,500 KLPA
- **Powder-based**
 - Jodhpur, Rajasthan – 138,000 MTPA

Capacity

At the end of FY24, the total manufacturing capacity was for 160,000 KLPA for solvent-based and 138,000 MTPA for powder-based.

Utilization levels

At the end of FY24, the company was operating at 68.2% aggregate utilization levels.

Expansion plans

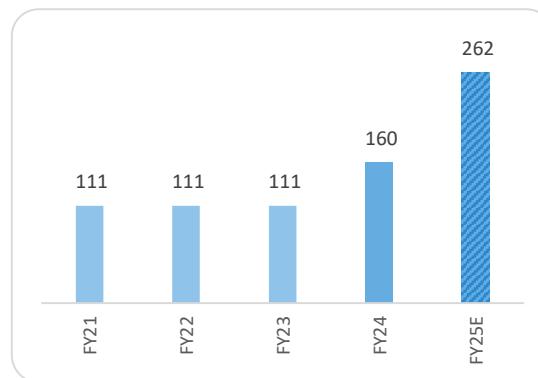
Capacity expansion is underway at Jodhpur to expand the company's capacity for water-based and solvent-based paints and putty. While two new plants are being set up- one each for solvent-based and water-based paints, the doubling of putty capacity is being undertaken in an existing facility. The liquids capacity is being expanded by 80.5% in FY25E. The expansion plan is as below:

Exhibit 139: Expanding capacity at Jodhpur in North India

| Location | Products | KLPA/MTPA | Capex (Rs mn) | Expected date of completion |
|----------|----------------------|-----------|---------------|-----------------------------|
| Jodhpur | Water-based paints | 90,000 | 2,700 | Mar-25 |
| Jodhpur | Solvent-based paints | 12,000 | 450 | Mar-25 |
| Jodhpur | Putty | 1,38,000 | 150 | Dec-24 |

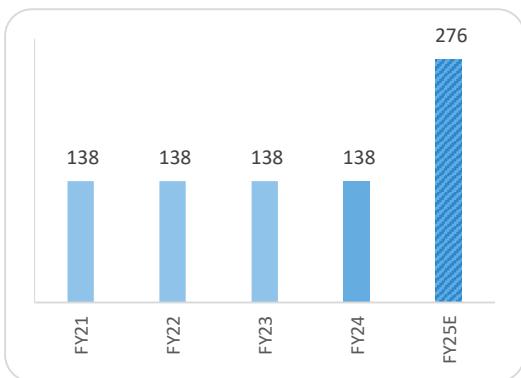
Source: Company, ACMIL Research

Exhibit 140: Ramp up in liquid capacity in FY25E



Source: Company, ACMIL Research

Exhibit 141: Doubling of powder capacity in FY25E



Source: Company, ACMIL Research

Distribution capabilities

The company has 53 depots across India.

Retail touchpoints

Indigo Paints had 18,500 retail touchpoints in India at the end of Q1FY25. The retail distribution has expanded at ~12.1% CAGR over the last five years.

It has a stronger position in South India (>25% of topline), with high concentration in Kerala. This is followed by the West, East and then North. The company initially built its presence in states such as Kerala, West Bengal, Bihar, Jharkhand, Chhattisgarh, Odisha and Uttar Pradesh. This was followed by Telangana, Gujarat, Maharashtra, Karnataka, Tamil Nadu, Punjab, Uttarakhand and Jammu and Kashmir, where the company entered just a few years ago.

Tinting machines

The company has tinting machines at ~54% of its retail outlets, totaling 10,210 machines at the end of Q1FY25. This tinting machine to dealer ratio is among the lowest in the industry. This leads to lower revenue per dealer, as tinting machines improve sales efficiency by ~3x.

Market share

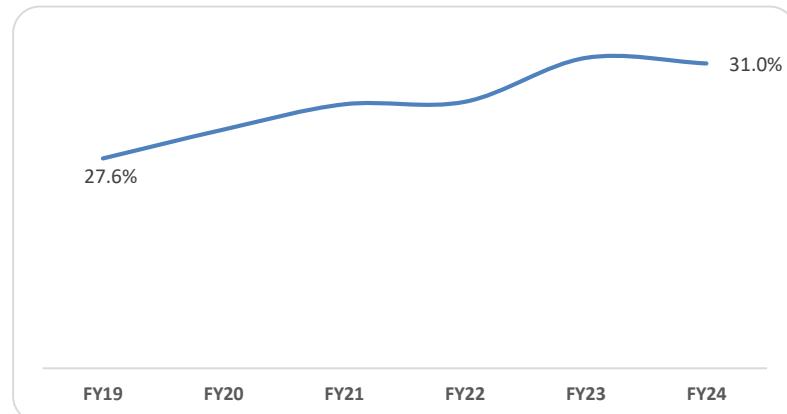
- Indigo Paints has a market share of ~2% in the decorative paints segment in India. This makes it a #5 player after Asian Paints, Berger Paints, Kansai Nerolac and Akzo Nobel India.

Positives for the company

1) High revenue share from differentiated offerings

- Indigo Paints' 'differentiated products' share in total revenues stands at ~30%, and has modestly improved over the years.

Exhibit 142: Sales from 'Differentiated' Products as a percentage of revenue



Source: Bloomberg, ACMIL Research

- This product range includes Metallic Emulsions, Tile Coat Emulsions, Bright Ceiling Coat Emulsions, Floor Coat Emulsions, Dirtproof & Waterproof Exterior Laminate, Exterior and Interior Acrylic Laminate, and PU Super Gloss Enamel.
- Some of these products have no direct competition, which lends the company with pricing power and better margins.
- Indigo Paints intends to continue to focus on the differentiated portfolio going forward to widen the customer base.

2) New revenue streams: focus on the WPCC segment

- In the last decade, paint companies have entered the waterproofing and construction chemical segment as a complementary product line to paints. With both paints and construction chemicals being increasingly offered through overlapping distribution channel, it has become a lucrative segment for paint players to expand their addressable market.
- Indigo Paints' entry in the WPCC segment in FY24 was later than most other organised paint players. The stake acquired in Apple Chemie exposed Indigo Paints to the WPCC B2B market, with the likes of L&T, Shapoorji Pallonji, B. G. Shirke Construction Technology and Afcons as its clients.
- Post the acquisition, Apple Chemie has started broadening its reach. While it was primarily catering to only Maharashtra earlier, it has now set up marketing teams in states like Madhya Pradesh, Telangana, Bihar, Karnataka, Tamil Nadu, Orissa, West Bengal, and Delhi (NCR Region).
- Apple Chemie is seeing strong topline growth, with 24% in FY24 and 47% in Q1FY25 on YoY basis. The Government's focus on infrastructure development coupled with Apple Chemie's expansion to a pan India level will aid continued growth trajectory.
- The management anticipates that this growth will continue in the upcoming quarters as a result of increased sales force and targeted investment execution.
- Despite being a B2B business, Apple Chemie's margins are along similar lines compared to that of Indigo Paints, hence contributing to overall profitability.
- Indigo Paints has also benefitted in terms of know-how of the WPCC segment from this acquisition. This has led the company to launch a retail line of products within the segment, under the Indigo Paints brand. This has helped the company to fill the gap in its portfolio. In the first year of launching these products, they have started contributing ~5%-6% to the standalone revenue.

3) Aiming to strengthen distribution capabilities and presence of tinting machines, leading to improvement in throughput per dealer

- Indigo Paints is working to expand its presence in Tier 1 & 2 cities while preserving its firm hold on Tier 3 cities and beyond.
- The new production facilities coming up in Jodhpur are expected to enhance customer service across various locations through expedited delivery and targeted distribution with strong sales follow-up.
- In terms of tinting machines, Indigo Paints had a very low penetration of 38% in FY20, which has gradually increased to 54.0% in FY24. With a 23.0% CAGR in no. of tinting machines installed over FY20-FY24, the sales per dealer has increased by a 6.7% CAGR. The sales per dealer surged from Rs 5.6 lakh in FY20 to Rs 7.2 lakh in FY24.
- The company aims to expand its dealer count and its share of counter at existing dealers to achieve revenue growth. It also plans to further increase its tinting machine penetration to improve sales throughput per dealer.

Exhibit 143: Active Dealer Count

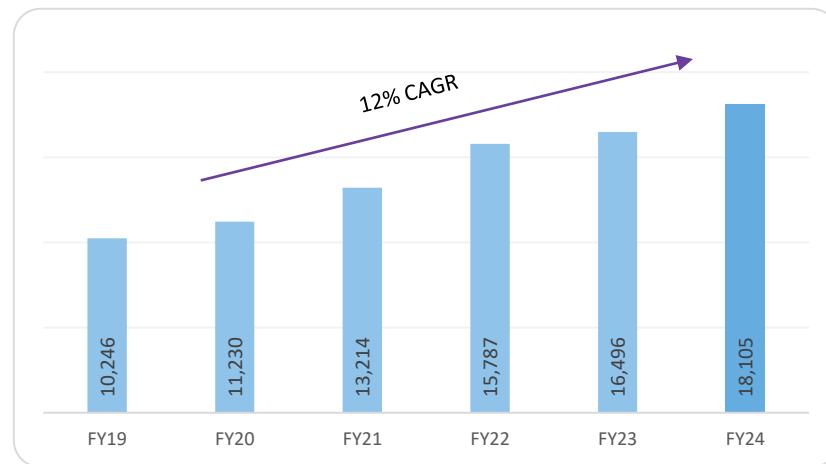
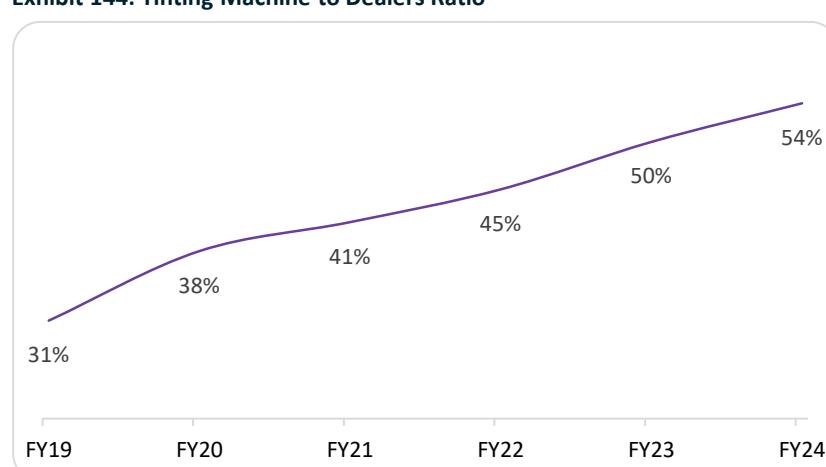


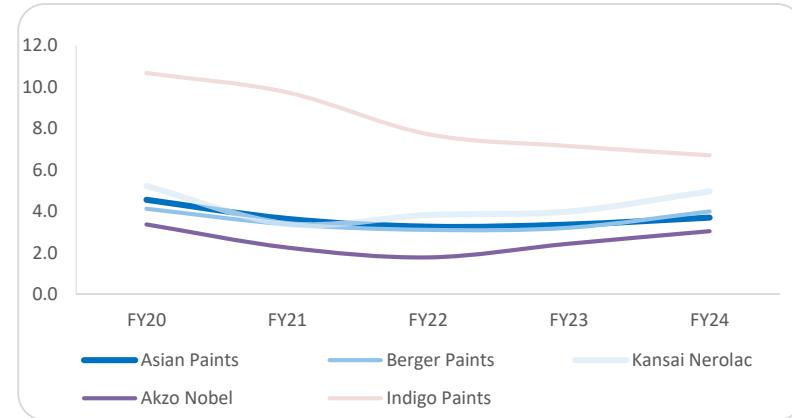
Exhibit 144: Tinting Machine to Dealers Ratio



4) Margin expansion due to scale up of operations

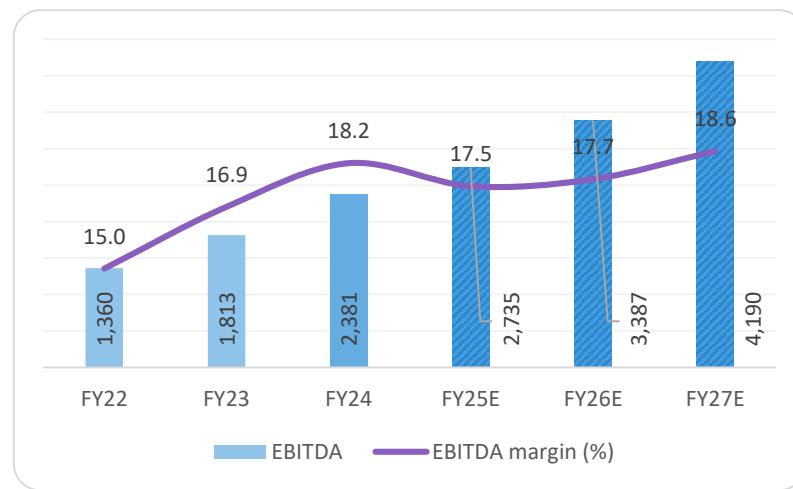
- Indigo Paints has the highest ad spends as % of sales among the top 5 companies. Challenger brands have to spend a higher amount on ad spends in order to build its brand and gain market share from larger players.
- However, as the company has been growing, its ad spends as a % of revenue have been declining. This trend is expected to continue going ahead. While the company will continue to see increase in absolute ad spends, it will be a lower number in percentage terms in relation to sales. This will aid EBITDA margins.
- Indigo Paints is also expected to see some reduction in freight cost due to capacity expansion in Jodhpur, which will help cater to the demand in northern and western India.
- These two factors will help the company to see EBITDA margin expansion over FY25E-FY27E. FY25E is likely to see pressure on margins due to higher competitive intensity and new plant commissioning.

Exhibit 145: Ad spends (as % of sales) tend to be higher for challenger brands



Source: Company, ACMIL Research

Exhibit 146: EBITDA margin expected to inch up in FY26E-FY27E



Source: Company, ACMIL Research

Key concerns

1) Concentrated exposure to Kerala

Of its total revenue, ~25% comes from a single state in India- Kerala. As was seen in Q1FY25, any adverse demand conditions in this state have a significant impact on Indigo Paints' overall performance.

2) Pressure on gross margins likely

We expect Indigo Paints' to see contraction of ~141 bps in its gross margins over FY24-FY27E. Indigo Paints' share in the top 5 players' is less than 3%. With the entry of larger new entrants in the market, Indigo Paints will have to be aggressive in terms of pricing to sustain or improve its market position. Moreover, Indigo Paints has some leeway as it currently has the industry-best gross margins and is on a path to reduce its ad spends and freight costs as % of sales. We believe some of these savings will be used to make the product pricing more attractive, leading to pressure on gross margins.

3) Location of manufacturing facilities may limit reduction in freight costs

Indigo Paints has capacities at only 3 locations, with two of them concentrated in southern India and only 1 in northern India. With many of its peers having manufacturing capacities spread out across the country, freight costs may continue to remain relatively higher for Indigo Paints.

4) Limited counter space at dealers' locations may limit increase in throughput and market share gains

Indigo Paints' is the smallest among the 5 listed paint companies, with a very small market share in low single digits. While the company has done a great job in creating this position for itself, increased competition from existing and new players may impact its ability to increase throughput.

Most of Indigo Paints dealers (~90%) are multi-brand outlets. With limited space available to dealers, they are able to keep a maximum of 2-3 tinting machines at any point of time. As a result, scope for Indigo Paints to increase its tinting machines may be limited beyond a certain point, which will impact its ability to increase throughput per dealer.

Quarterly performance:

| Y/E March (Rs mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 2,240 | 2,426 | 2,813 | 3,255 | 2,790 | 5,674 | 3,538 | 3,849 | 3,110 |
| Raw Material Cost | 1,228 | 1,414 | 1,580 | 1,731 | 1,519 | 1,519 | 1,833 | 1,968 | 1,661 |
| Employee Cost | 166 | 175 | 202 | 187 | 243 | 255 | 264 | 234 | 302 |
| Other Expenses | 493 | 499 | 625 | 619 | 631 | 595 | 819 | 801 | 673 |
| Total Expenses | 1,887 | 2,088 | 2,407 | 2,537 | 2,393 | 2,369 | 2,915 | 3,003 | 2,636 |
| EBITDA | 353 | 338 | 406 | 717 | 491 | 421 | 622 | 846 | 474 |
| <i>EBITDA (%)</i> | 15.7 | 13.9 | 14.4 | 22.0 | 17.0 | 15.1 | 17.6 | 22.0 | 15.2 |
| Depreciation | 84 | 85 | 87 | 87 | 101 | 113 | 146 | 156 | 152 |
| EBIT | 268 | 253 | 318 | 630 | 390 | 308 | 476 | 690 | 321 |
| <i>EBIT (%)</i> | 12.0 | 10.4 | 11.3 | 19.4 | 13.5 | 11.1 | 13.5 | 17.9 | 10.3 |
| Finance Cost | 4 | 3 | 3 | 4 | 5 | 6 | 6 | 5 | 6 |
| Other Income | 5 | 32 | 38 | 28 | 38 | 32 | 31 | 42 | 42 |
| PBT before Exceptional Items | 269 | 282 | 353 | 654 | 423 | 335 | 501 | 727 | 357 |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | 269 | 282 | 353 | 654 | 423 | 335 | 501 | 727 | 357 |
| Tax | 70 | (89) | 91 | 168 | 108 | 81 | 125 | 183 | 90 |
| <i>Tax Rate (%)</i> | 26.0 | (31.5) | 25.7 | 25.6 | 25.6 | 24.3 | 25.0 | 25.1 | 25.3 |
| Minority interest | 0 | 0 | 0 | 0 | (5) | 0 | (3) | (8) | (5) |
| Rep. PAT | 199 | 371 | 263 | 487 | 310 | 253 | 373 | 537 | 262 |
| <i>PAT (%)</i> | 8.9 | 15.3 | 9.3 | 15.0 | 11.1 | 4.5 | 10.5 | 13.9 | 8.4 |
| Reported EPS (Rs) | 4.2 | 7.8 | 5.5 | 10.2 | 6.5 | 5.3 | 7.8 | 11.3 | 5.5 |
| Adj. PAT | 199 | 371 | 263 | 487 | 310 | 253 | 373 | 537 | 262 |
| <i>Adj. PAT (%)</i> | 8.9 | 15.3 | 9.3 | 15.0 | 11.1 | 4.5 | 10.5 | 13.9 | 8.4 |
| Adj. EPS (Rs) | 4.2 | 7.8 | 5.5 | 10.2 | 6.5 | 5.3 | 7.8 | 11.2 | 5.5 |
| No. of Shares | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 |

Sources: Company, ACMIL research

| YoY Growth (%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 43.6 | 23.7 | 6.0 | 12.9 | 28.8 | 15.0 | 25.8 | 18.3 | 7.8 |
| EBITDA | 74.9 | 44.5 | 4.9 | 33.4 | 39.2 | 24.8 | 53.5 | 17.9 | (3.5) |
| Adj. PAT | 71.5 | 173.7 | 8.1 | 40.7 | 55.9 | (31.7) | 41.9 | 10.3 | (15.6) |
| Adj. EPS | 71.3 | 173.5 | 8.0 | 40.6 | 55.8 | (31.7) | 41.9 | 10.2 | (15.6) |

Sources: Company, ACMIL research

| QoQ Growth(%) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | (22.3) | 8.3 | 15.9 | 15.7 | (11.4) | (3.3) | 26.8 | 8.8 | (19.2) |
| EBITDA | (34.4) | (4.3) | 20.1 | 76.9 | (31.5) | (14.2) | 47.7 | 35.9 | (44.0) |
| Adj. PAT | (42.4) | 86.3 | (29.2) | 85.3 | (36.2) | (18.4) | 47.0 | 44.0 | (51.2) |
| Adj. EPS | (42.5) | 86.3 | (29.2) | 85.4 | (36.3) | (18.4) | 47.0 | 44.0 | (51.2) |

Sources: Company, ACMIL research

Q1FY25 performance highlights

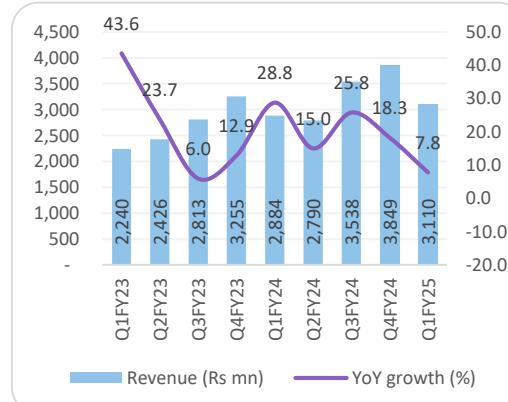
| Y/E March (Rs in mn) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | Consensus Est. | Var% |
|------------------------------------|--------------|--------------|---------------|--------------|---------------|----------------|---------------|
| Net Revenue | 3,110 | 2,884 | 7.8 | 3,849 | (19.2) | 3,201 | (2.9) |
| Expenses: | | | | | | | |
| Total Raw Material Cost | 1,661 | 1,519 | 9.3 | 1,968 | (15.6) | | |
| Employee Cost | 302 | 243 | 24.4 | 234 | 29.3 | | |
| Other Expenses | 673 | 631 | 6.7 | 801 | (15.9) | | |
| Total Operating Cost | 2,636 | 2,393 | 10.1 | 3,003 | (12.2) | | |
| EBITDA | 474 | 491 | (3.5) | 846 | (44.0) | 568 | (16.6) |
| <i>EBITDA (%)</i> | 15.2 | 17.0 | -179 bps | 22.0 | -675 bps | | |
| Depreciation | 152 | 101 | 51.1 | 156 | (2.1) | | |
| EBIT | 321 | 390 | (17.7) | 690 | (53.5) | | |
| Other Income | 42 | 38 | 10.2 | 42 | 1.1 | | |
| Interest | 6 | 5 | 30.6 | 5 | 38.5 | | |
| Extraordinary Items | 0 | 0 | NA | 0 | NA | | |
| PBT | 357 | 423 | (15.7) | 727 | (50.9) | | |
| Tax | 90 | 108 | (16.6) | 183 | (50.5) | | |
| <i>Effective Tax Rate (%)</i> | 25.3 | 25.6 | -26 bps | 25.1 | 19 bps | | |
| <i>Minority interest</i> | 4.6 | (4.8) | | (7.6) | | | |
| RPAT | 262 | 320 | (18.1) | 552 | (52.5) | | |
| APAT | 262 | 320 | (18.1) | 552 | (52.5) | 327 | (19.9) |
| <i>APAT (%)</i> | 8.4 | 11.1 | -267 bps | 14.3 | -592 bps | | |
| <i>Reported EPS (diluted) (Rs)</i> | 5.5 | 6.5 | (15.7) | 11.3 | (51.2) | | |
| Adj. EPS (Rs) | 5.5 | 6.5 | (15.6) | 11.3 | (51.2) | | |

Sources: Company, Bloomberg, ACMIL research

- Demand slowdown in Kerala impacted sales:** Kerala is a top revenue contributing state for Indigo Paints. Due to a decline in sales in this state, the company was particularly impacted in this quarter. Various other states performed well, thus compensating for the decline in sales from Kerala.
- Segment-wise sales:** All product segments reported positive volume growth in the quarter. Volume/value growth in 'putty + cement paints' was 8.2%/8.9% YoY, respectively. 'Primers + distempers + others' segment saw corresponding growth of 24.4%/28.6%, respectively. Emulsions saw a weak performance with volume growth of just 0.4% YoY and value decline of 3.1% YoY, impacted by price cuts. Performance of the 'enamels + wood coatings' segment was also muted with volume/value growth of 5.0%/-1.0% YoY, respectively.
- Margin contraction:** On a consolidated basis, gross margins contracted by 73 bps YoY/ 226 bps QoQ, impacted by price cuts across the industry, elevated discount levels and increase in input costs in the quarter. Employee costs saw a sharp YoY increase due to a significant increase in onboarding of sales personnel (~35%–40%) in Q2FY24. This also impacted operating profitability.
- Continued focus on network expansion and improving dealer throughput:** At the end of the quarter, Indigo Paints had 18,500 active dealers and a total of 10,210 tinting machines installed. The company plans to add 1,300–1,500 tinting machines per annum. It does not give tinting machines to the dealers for free and charges a nominal fee for the same to ensure the dealer is serious about improving throughput. With a tinting machine, the average sales of the dealer increases by 3x–4x. The company is also adding wholesale dealers, which increase the overall average sales throughput.
- Waterproofing segment:** Apart from its subsidiary Apple Chemie, Indigo Paints also sells waterproofing and construction chemicals under its own brand to the retail customers. The share of this business in the overall revenue is now around 5%–7% and can further increase to 8%–10%.
- Demand outlook:** After a subdued industry performance in Q1, Indigo Paints has seen a very strong growth in the month of July, surpassing the growth rates seen in last 7–8 months. However, it is too soon to extrapolate/predict the sustainability of this trend in the coming months.
- Price hikes:** So far, in Q2FY25, the paints industry has taken an average price hike of 2%, which augurs well for gross margin improvement in the coming quarters.
- Capacity expansion projects:** The expansion in water-based and solvent-based paints at the company's plant in Jodhpur is progressing well. Once this capacity is on-stream, the overall capacity is projected to suffice for four to five years.
- Management's view on competition intensity:** So far, the management has not seen any impact after the entry of Birla Opus in the decorative paints segment. The competition intensity from existing players remains strong.

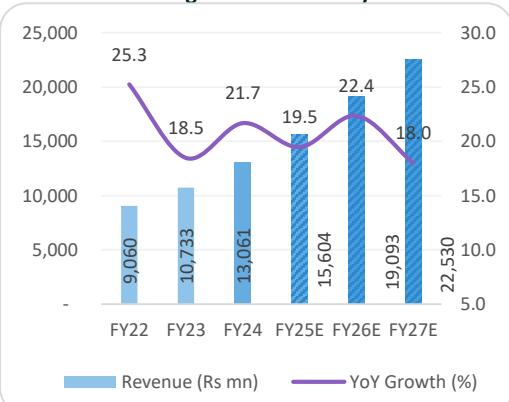
Story in charts:

Exhibit 147: Indigo Paints saw strong growth in FY24



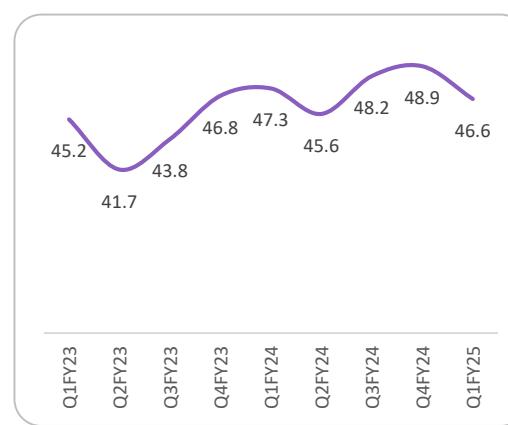
Source: Company, ACMIL Research

Exhibit 148: We expect revenue growth to continue to be higher than industry



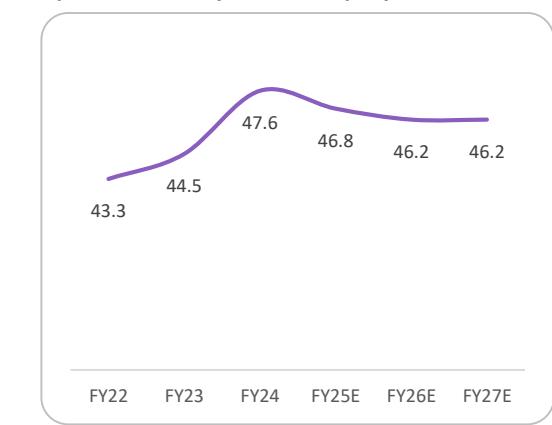
Source: Company, ACMIL Research

Exhibit 149: Gross margin (%) dipped in Q1FY25 due to higher discounts and RM costs



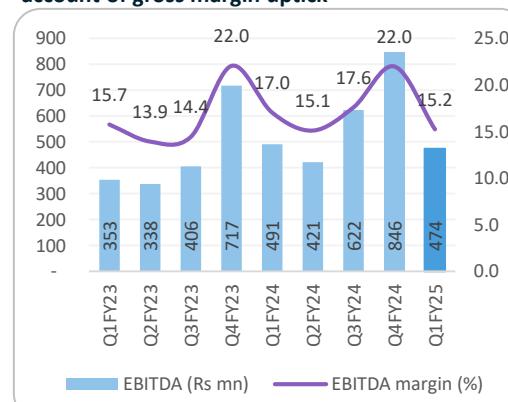
Source: Company, ACMIL Research

Exhibit 150: We expect pressure on gross margins (%) to continue due to greater impact of competitive intensity on the company



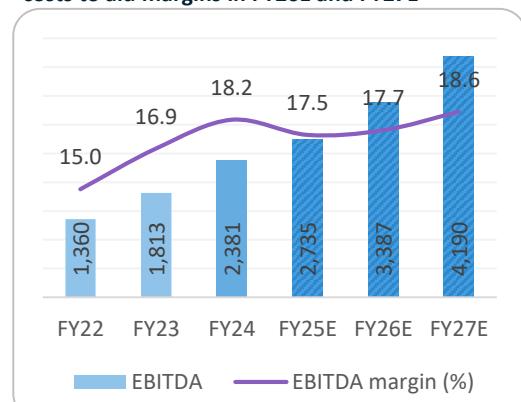
Source: Company, ACMIL Research

Exhibit 151: EBITDA margin expansion in FY24 on account of gross margin uptick



Source: Company, ACMIL Research

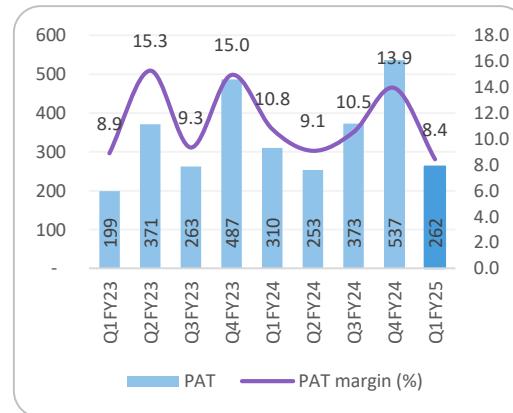
Exhibit 152: Decline in A&P spends and freight costs to aid margins in FY26E and FY27E



Source: Company, ACMIL Research

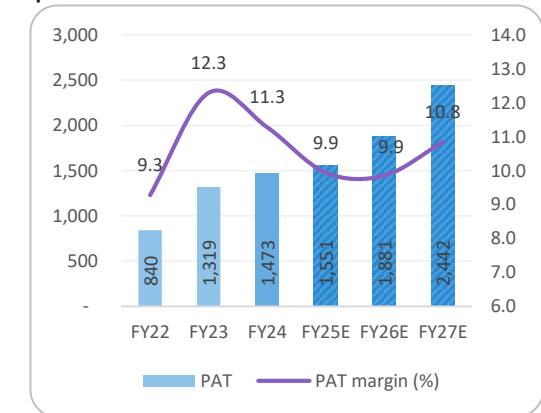
Story in charts:

Exhibit 153: Seasonality impacts QoQ margin performance



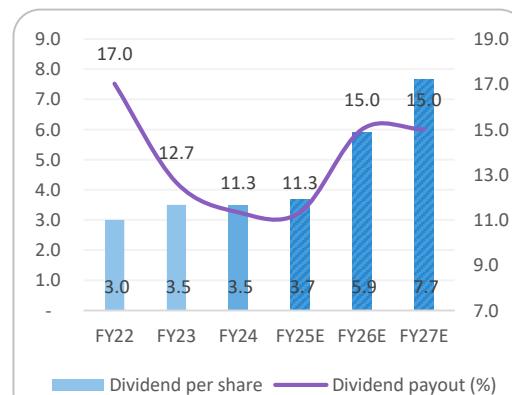
Source: Company, ACMIL Research

Exhibit 154: PAT margin expected to be lower in FY25E-FY26E due to expenses related to commissioning of new plants and lower other income



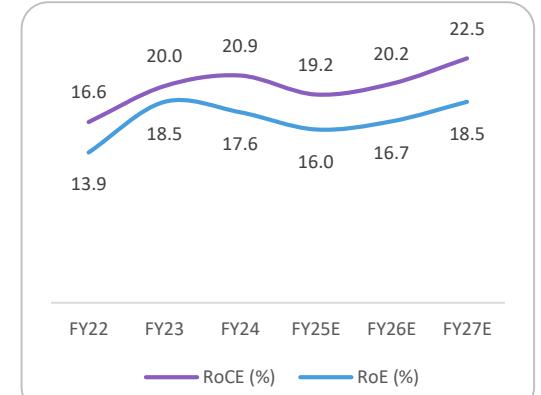
Source: Company, ACMIL Research

Exhibit 155: Dividend payout may improve going ahead



Source: Company, ACMIL Research

Exhibit 156: Return ratios to dip in FY25E due to large capex



Source: Company, ACMIL Research

Key projections

We expect Indigo Paints to lead the industry growth at a CAGR of 19.9%, owing to improving distribution and tinting machine penetration. We expect to see a contraction in its gross margins of ~141 bps over FY24-FY27E. Indigo Paints' share in the top 5 players' is less than 3%. With the entry of larger new entrants in the market, Indigo Paints will have to be aggressive in terms of pricing to sustain or improve its market position. The company is expected to benefit from lowering of ad spends as % of sales, due to improving scale of business. It is also expected to see some moderation in freight costs as % of sales, on account of capacity augmentation at existing locations. We believe some of these savings will be used to make the product pricing more attractive. We expect EBITDA margins for the company to expand by 37 bps over FY24-FY27E, despite a decline in gross margins.

At the PAT level however, we expect a CAGR of 18.4% and a contraction in margins of ~44bps due to higher employee costs related to new capex, higher depreciation and lower other income in FY25E and FY26E.

Valuation and View:

For Indigo Paints, we expect revenue/ EBITDA/ Adj. PAT CAGR of 19.9%/ 20.7%/ 19.2% over FY24-FY27E. This is the highest expected growth among the top 5 companies, as was seen in the CAGR between FY20-FY24. The company will also see margin expansion due to lower ad spends and freight costs in relation to its sales, as it scales up in size.

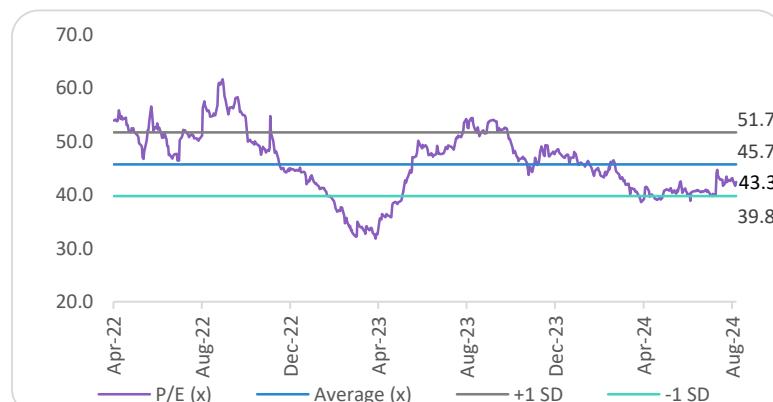
In the last 2.5 years, the stock has traded at an average P/E of 45.7x. The stock is currently trading at 50.5x/41.7x/32.1x its FY25E/FY26E/FY27E Adj. EPS, respectively. We believe the company is likely to see greater impact due to heightened competition. New players with deep pockets and aggressive targets can achieve a larger scale than Indigo Paints in a few years, which may limit Indigo Paints' scope for distribution and tinting machine expansion. We value the company based on 39x its Sep-26E EPS of Rs 44 and arrive at a price target of Rs 1,710. With an upside potential of 4.1%, our rating for the shares of Indigo Paints is 'Hold'.

Exhibit 157: Valuation Summary

| Valuation | Rs |
|-------------------------------------|--------------|
| Adj. EPS (4 quarter ending Sep-26E) | 43.9 |
| P/E (x) | 39 |
| Target price | 1,710 |
| CMP | 1,643 |
| Upside potential (%) | 4.1 |
| Rating | Hold |

Source: Company, ACMIL Research

Exhibit 158: 1-year forward PE



Sources: Company, ACMIL research

Financial (Standalone)

Income Statement

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 10,733 | 13,061 | 15,604 | 19,093 | 22,530 |
| Growth (%) | 18.5 | 21.7 | 19.5 | 22.4 | 18.0 |
| RM cost | 5,953 | 6,839 | 8,308 | 10,268 | 12,116 |
| Employee cost | 731 | 995 | 1,263 | 1,558 | 1,783 |
| Other expenses | 2,237 | 2,846 | 3,299 | 3,880 | 4,441 |
| Total expenses | 8,920 | 10,680 | 12,870 | 15,706 | 18,340 |
| EBITDA | 1,813 | 2,381 | 2,735 | 3,387 | 4,190 |
| Growth (%) | 33.3 | 31.3 | 15.9 | 17.6 | 14.5 |
| EBITDA margin (%) | 16.9 | 18.2 | 17.5 | 17.7 | 18.6 |
| Depreciation | 343 | 516 | 714 | 950 | 1,036 |
| EBIT | 1,470 | 1,865 | 2,021 | 2,436 | 3,154 |
| EBIT margin (%) | 13.7 | 14.3 | 13.0 | 12.8 | 14.0 |
| Other income | 103 | 142 | 108 | 141 | 181 |
| Interest expense | 14 | 21 | 21 | 21 | 21 |
| PBT before exceptional items | 1,559 | 1,986 | 2,108 | 2,557 | 3,314 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| PBT | 1,559 | 1,986 | 2,108 | 2,557 | 3,314 |
| Tax | 239 | 498 | 534 | 647 | 839 |
| Effective tax rate (%) | 15.4 | 25.1 | 25.3 | 25.3 | 25.3 |
| Minority interest | 0 | (15) | (23) | (28) | (33) |
| Rep. PAT | 1,319 | 1,473 | 1,551 | 1,881 | 2,442 |
| Rep. PAT Growth (%) | 57.0 | 11.7 | 8.4 | 20.6 | 29.5 |
| Rep. PAT (%) | 12.3 | 11.3 | 9.9 | 9.9 | 10.8 |
| Adj. PAT | 1,319 | 1,473 | 1,551 | 1,881 | 2,442 |
| Adj. PAT Growth (%) | 57.0 | 11.7 | 5.3 | 21.3 | 29.8 |
| Adj. PAT (%) | 12.3 | 11.3 | 9.9 | 9.9 | 10.8 |

Source: Company, ACMIL Research

Balance Sheet

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 476 | 476 | 476 | 476 | 476 |
| Reserves & surplus | 7,285 | 8,545 | 9,929 | 11,635 | 13,795 |
| Net Worth | 7,761 | 9,021 | 10,406 | 12,111 | 14,271 |
| Non-current borrowings (incl. lease liabilities) | 69 | 125 | 125 | 125 | 125 |
| Other financial liabilities | 0 | 414 | 414 | 414 | 414 |
| Other non-current liabilities | 145 | 283 | 283 | 283 | 283 |
| Non current liabilities | 214 | 821 | 821 | 821 | 821 |
| Borrowings | 0 | 16 | 16 | 16 | 16 |
| Trade payables | 1,991 | 2,290 | 2,781 | 3,438 | 4,056 |
| Lease liabilities | 49 | 70 | 70 | 70 | 70 |
| Other current financial liabilities | 225 | 270 | 270 | 270 | 270 |
| Other current liabilities | 376 | 217 | 217 | 217 | 217 |
| Current liabilities | 2,641 | 2,861 | 3,353 | 4,009 | 4,628 |
| Equity & liabilities | 10,616 | 12,704 | 14,580 | 16,942 | 19,721 |
| Net PPE | 1,795 | 4,682 | 6,608 | 6,962 | 7,427 |
| CWIP | 2,509 | 174 | 0 | 0 | 0 |
| Intangible assets | 309 | 613 | 613 | 613 | 613 |
| RoU assets | 543 | 616 | 616 | 616 | 616 |
| Financial assets | 16 | 25 | 25 | 25 | 25 |
| Other non current assets | 256 | 348 | 348 | 348 | 348 |
| Non current assets | 5,429 | 6,458 | 8,210 | 8,564 | 9,030 |
| Inventories | 1,177 | 1,706 | 2,072 | 2,561 | 3,022 |
| Investments | 1,317 | 1,667 | 1,267 | 1,767 | 2,267 |
| Trade receivables | 2,001 | 2,231 | 2,666 | 3,261 | 3,849 |
| Cash | 472 | 329 | 52 | 475 | 1,240 |
| Bank balances | 16 | 0 | 0 | 0 | 0 |
| Other financial assets | 2 | 4 | 4 | 4 | 4 |
| Other current assets | 203 | 309 | 309 | 309 | 309 |
| Current assets | 5,187 | 6,246 | 6,370 | 8,377 | 10,691 |
| Total assets | 10,616 | 12,704 | 14,580 | 16,942 | 19,721 |

Source: Company, ACMIL Research

Cash Flow

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 1,559 | 1,986 | 2,108 | 2,557 | 3,314 |
| Add: Depreciation | 343 | 516 | 714 | 950 | 1,036 |
| Add: Interest | 3 | 19 | (87) | (120) | (160) |
| Other adjustments | 4 | (41) | 0 | 0 | 0 |
| Chg in working cap | (505) | (377) | 91 | (929) | (929) |
| Tax | (244) | (593) | (534) | (647) | (839) |
| Operating Cash flow | 1,161 | 1,510 | 2,292 | 1,811 | 2,421 |
| Capex | (1,970) | (1,041) | (2,466) | (1,305) | (1,501) |
| Free Cash Flow | (809) | 469 | (174) | 506 | 921 |
| Investments | 1,100 | (478) | 0 | 0 | 0 |
| Interest/ dividend income | 25 | 2 | 108 | 141 | 181 |
| Investing Cash flow | (844) | (1,517) | (2,358) | (1,164) | (1,319) |
| Equity Capital | 0 | 0 | 0 | 0 | 0 |
| Debt | (58) | (64) | 0 | 0 | 0 |
| Dividend paid | (143) | (167) | (167) | (176) | (282) |
| Interest paid | 0 | (2) | (21) | (21) | (21) |
| Others | 0 | 0 | (23) | (28) | (33) |
| Financing Cash flow | (201) | (232) | (211) | (225) | (336) |
| Net chg in cash | 116 | (239) | (277) | 422 | 766 |
| Opening cash position | 355 | 472 | 329 | 52 | 475 |
| C&CE of acquired company | 0 | 96 | 0 | 0 | 0 |
| Closing cash position | 472 | 329 | 52 | 475 | 1,240 |

Source: Company, ACMIL Research

Key Ratios

| YE March (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|-------|-------|-------|-------|-------|
| EPS | 27.7 | 30.9 | 32.5 | 39.4 | 51.2 |
| CEPS | 24.3 | 31.6 | 48.0 | 38.0 | 50.7 |
| BVPS | 162.7 | 189.0 | 218.1 | 253.8 | 299.1 |
| DPS | 3.5 | 3.5 | 3.7 | 5.9 | 7.7 |
| Valuations (x) | | | | | |
| P/E | 59.4 | 53.2 | 50.5 | 41.7 | 32.1 |
| P/BV | 10.1 | 8.7 | 7.5 | 6.5 | 5.5 |
| EV/Sales | 7.3 | 6.0 | 5.0 | 4.1 | 3.5 |
| EV/EBITDA | 43.2 | 32.9 | 28.6 | 23.1 | 18.7 |
| Dividend Yield (%) | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 |
| Return Ratio (%) | | | | | |
| RoCE | 20.0 | 20.9 | 19.2 | 20.2 | 22.5 |
| RoE | 18.5 | 17.6 | 16.0 | 16.7 | 18.5 |
| Gearing Ratio (x) | | | | | |
| Net Debt/Equity | 0.0x | 0.0x | 0.0x | 0.0x | -0.1x |
| Net Debt/EBITDA | -1.4x | -0.4x | -0.1x | 0.0x | 0.0x |
| Working Cap Cycle (days) | 18.1 | 31.2 | 31.2 | 31.2 | 31.2 |
| Profitability (%) | | | | | |
| EBITDA Margin | 16.9 | 18.2 | 17.5 | 17.7 | 18.6 |
| EBIT Margin | 13.7 | 14.3 | 13.0 | 12.8 | 14.0 |
| Adj. PAT Margin | 12.3 | 11.3 | 9.9 | 9.9 | 10.8 |

Source: Company, ACMIL Research

| Explanation of Investment Rating | |
|----------------------------------|---------------------------------|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | <-10% |
| HOLD | >-10% to 15% |

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