

Consumer

Paints: Competitive intensity to remain firm

Competitive activity in the Indian decorative paint segment has been on the rise with entry of Birla Opus (investment of INR 100bn) and recent announcement of acquisition of Akzo Nobel India by JSW Paints (investment of INR 94bn). Phase 1 of execution from Birla Opus has been commendable & pace of scale up (thruput/store) will be key monitorable (targeting double digit market share in FY26) going ahead. On JSW Paints-Akzo, there are possible synergy benefits (on portfolio, distribution, overhead costs) which can be extracted & utilised to invest behind growth; however, it could take some time & will depend on pace of integration of two entities. We like Asian Paints' brand equity & supply chain strengths; however, over past 2 years these moats have been challenged (visible from underperformance on sales growth vs peers/industry). While initial signs of normalisation of competitive activity (likely stabilization in sales run-rate of Birla Opus) & JSW Paints intent to scale up in sustainable manner is positive; however, it is too early to call out stabilization in industry structure. Premium segment which is strong hold of Asian Paints could see increased activity from new players (Birla Opus, increased focus on Dulux by JSW Paints-Akzo) as well as existing incumbents (Berger Paints) who are strengthening their position in urban markets. Hence, while valuations are below LT averages for Asian paints, the industry construct & earnings profile/visibility has also changed. We maintain our cautious view on the sector & would await more concrete signs on revenue recovery before changing our stance on Asian Paints.

- **Grasim (Birla Opus) - Phase 1 of execution has been commendable:** Based on Grasim's scale of launch (wide product portfolio, aggressive expansion plans, c.40% addition to industry capacity), ambitious revenue target (INR 100bn sales) and commentary so far, company appears to be well prepared to repaint the industry landscape. As per mgmt. commentaries & our estimate, the revenue scale for Birla Opus is around c. INR11bn in FY25 & it has achieved exit market share in high single digits (on exit run-rate basis) in the domestic organised decorative paint segment. On the supply chain front too, company has a capacity of 1,096 mlpa (planned capacity of 1,332 mlpa), coverage in 6,600 towns with a dealer network of c.50-55k dealers. Also, our checks suggest that with aggressive dealer additions by incumbents & newer channels coming up, revenue per dealer has taken a hit. Hence, they are willing to add newer brands like Birla Opus. In our view, Grasim's well prepared entry (focus on getting manufacturing in place, offering full portfolio & distribution expansion, aggressive brand spends) has helped it succeed in the first phase of its execution.
- **JSW Paints + Akzo Nobel India - Overview of combined entity:** Recently, JSW Paints announced acquisition of 74.76% stake in Akzo Nobel India which includes India decorative business & industrial business (excluding powder coatings). As per our estimate, the combined entity will have a revenue size of INR c.58-60bn (INR 35bn of Akzo (excluding powder coatings sales of INR 5bn) + INR 23-25bn sales of JSW Paints). In the decorative paints segment, we estimate Akzo Nobel India sales to be c.22bn (c.55% of overall sales) and INR c.14-15bn for JSW Paints. This in our view would translate to mid-single-digit market share in decorative paints segment for the combined entity. On the supply chain & manufacturing side, the entity will have combined distribution reach of c.28-29k outlets and 8 manufacturing facilities. Overall the combined entity, in terms of scale/share, will be No.4 player in decorative paints & No 2 player in Industrial segment; management aspiration is to break into top 3 in decorative and become No. 1 in the industrial segment.
- **Current manufacturing infrastructure & possible synergy benefits provide adequate strength to invest behind brands & double revenue scale:** Akzo Nobel India's performance in the decorative paints segment has been sub-par on account of a) higher focus on premium products & lack of credible presence in mid-mass segment, & b) under-indexation in smaller/mid-size cities. Akzo Nobel's management too highlighted that it did not capitalize on the quality/value of the Dulux brand & missed on-ground fire power. As per JSW Paints, the combined entity could see potential synergy benefits in terms of a)



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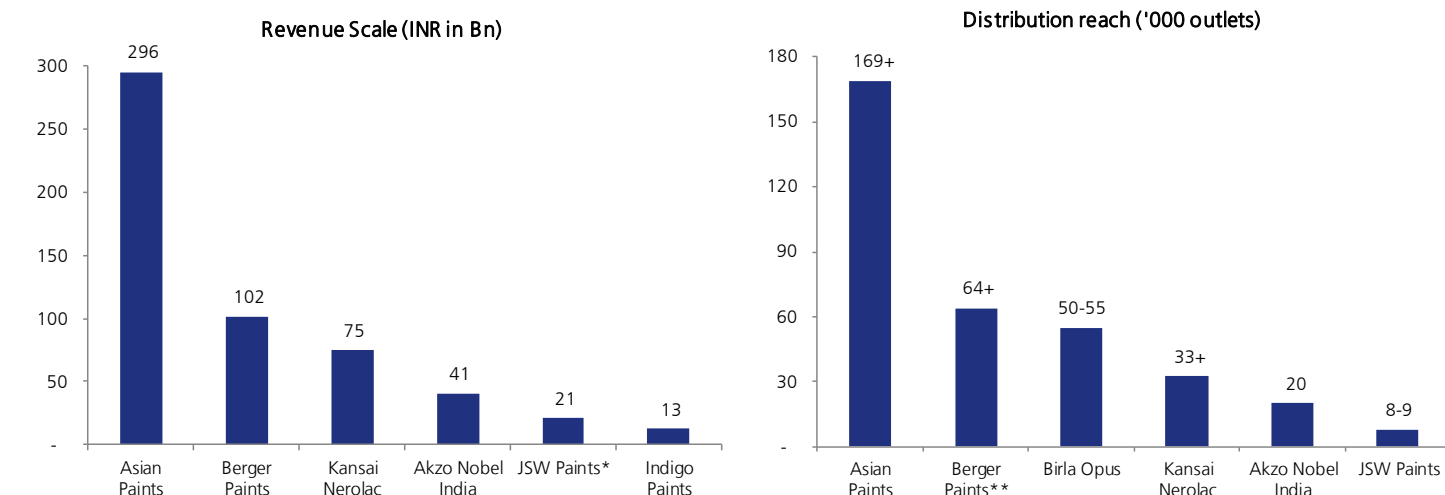
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complementary portfolio with 'Dulux' having strong brand equity in premium segment & JSW Paints having portfolio in economy & mid-premium segment through brands like Aurus, Pixa & Joie, b) wider distribution – JSW Paints reach of 8-9k dealers and Akzo Nobel India's reach of c. 20k+ dealers, c) cost efficiencies/savings in terms of RM procurement, better capacity utilisation, logistics, royalty expenses (c.350bps savings) & other overhead costs. This, along with existing brand spends of Akzo/JSW, would provide adequate firepower for combined entity to invest behind driving growth. Also, the current supply chain infrastructure (8 mfg facilities – 5 of Akzo & 3 of JSW Paints in India) is adequate enough to double the revenue. Both the entities are profitable & post conclusion of transaction (by end of CY25), management expects to double revenue scale over next 3 years from current levels in a sustainable manner. A year back, JSW Paints' MD Mr Parth Jindal had highlighted its vision to reach a revenue scale of INR 100bn by 2028 in coatings business & target mid-teens margins in decorative business.

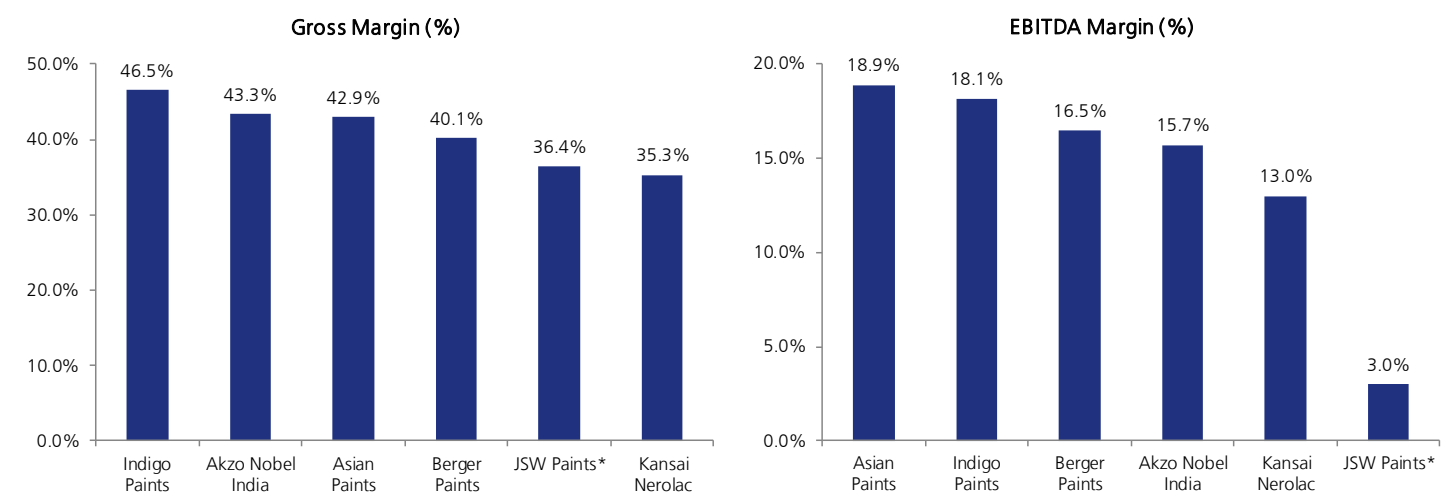
- **Competitive landscape remains challenging; expect step-up in activity in premium segment:** Commentaries from industry players suggest some stabilization in sales run-rate of Birla Opus; although, we would await Grasim's commentary on the same. Further, JSW Paints' management also alluded to scale up in a sustainable manner. While rational/judicious competition is positive, however, we don't see it coming down. We expect the intensity to see a step up especially in the premium segment (where Asian Paints has a formidable market share) led by a) increased focus by Birla Opus, b) JSW Paints-Akzo Noble India plan to double down on spends behind 'Dulux' which has strong equity in premium segment and c) step up in distribution/investment by Berger Paints in the urban markets.
- **Asian Paints - Core decorative business has remained under pressure, recovery to be gradual..:** Over the last 3-4 years, we have seen Asian Paints' realization growth in decorative paints has not grown in tandem with the headline pricing growth. For eg: In FY22/23, despite double digit pricing growth, the realization growth was in mid-single digits. In FY24 while price cuts (c.4%) were implemented towards end of 3Q and in 4Q, the decline in realization was c.5.5%. In FY25 too, APNT's standalone revenue decline at 5.4% was weaker compared to peers (like Berger Paints) & industry performance. This is predominantly a function of adverse price/mix led by higher growth in lower end products (putty, distempers, economy emulsions). Moreover, rebates/discounts as a % to gross revenue (Exhibit 6) for Asian Paints has seen healthy increase (of c.600 bps) over FY19-25. Going ahead too, with competitive intensity picking up and Asian Paints going aggressive behind its economy segment launch (Neo Bharat), we believe overall value growth will remain restricted. We are factoring c.4% decorative sales growth for FY26E.
- **...which along with lack of margin levers to restrict earnings growth:** Asian Paints' gross margins expanded by c.650bps over FY22-24 to 43%, almost close to pre-covid levels – a function of benign input costs. Resultant EBITDA margins expanded by c.480bps to 21.5% in FY24 (higher than management guidance of c.18-20%). However, FY25 saw EBITDA margin compression of 366bps yoy to 17.9% on account of RM inflation, lack of price hikes, weaker mix and scale deleverage (higher cost of growth). While RM scenario is benign, we believe benefit will be used to drive volume; hence, EBITDA margin expansion is unlikely in current competitive environment and we expect it to remain at lower end of its guidance (c.18-20%) over FY26/27E. While valuations are below long term averages, the industry construct and earnings profile has changed considerably in past 18-24 months. We believe re-rating from current levels would be contingent on sustained improvement in revenue trajectory and visibility on reverting back to erstwhile double digit sales growth for decorative business. Steady uptick in birla opus and better than expected execution from JSW paints+Akzo (likely revival in Dulux) pose key risk to our c.9-10% decorative sales growth estimate for Asian Paints in FY27/28E.

Exhibit 1. Domestic revenue scale & Distribution reach of key organised players (FY25)

Source: Company, JM Financial. Revenue figures are on standalone basis.

*Data for JSW Paints pertains to FY24.

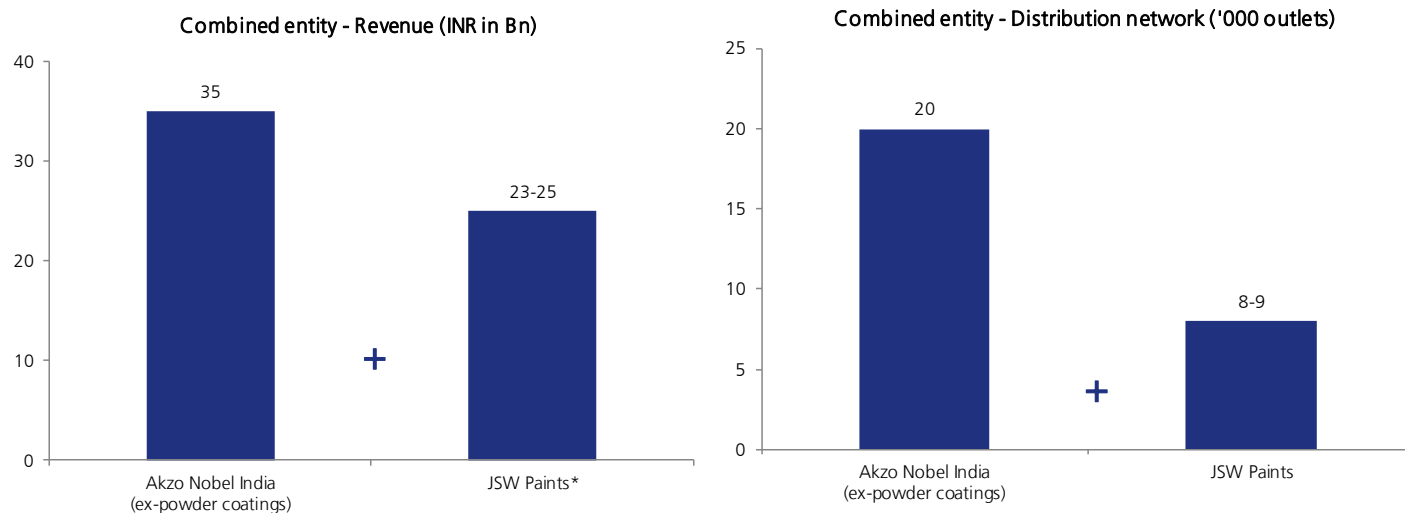
** Data for Berger Paints pertains to FY24.

Exhibit 2. Gross margin and EBITDA margin of key organised players (FY25)

Source: Company, JM Financial. Margins are on standalone basis.

*Data for JSW Paints pertains to FY24.

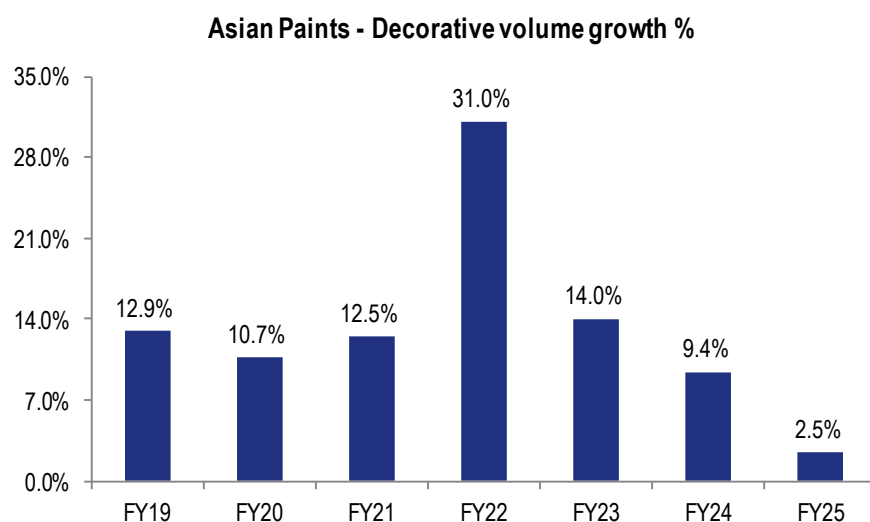
Exhibit 3. Revenue scale and Distribution network of the combined entity (FY25)



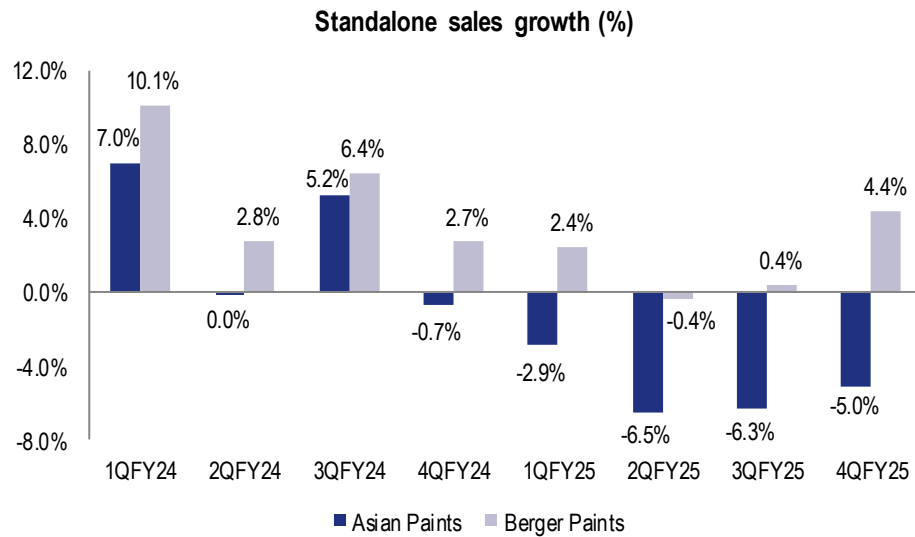
Source: Company, JM Financial

Note: Data for JSW Paints is as per internal estimates.

Exhibit 4. Asian Paints - Decorative volume growth continues to moderate



Source: Company, JM Financial

Exhibit 5. APNT's sales growth remains weaker vs. Berger Paints indicative of market share loss


Source: Company, JM Financial

Exhibit 6. Asian Paints - Rebate as % to sales has seen steady uptick over FY19-25

INR mn	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Gross sales (INR mn)	187,017	198,520	215,200	296,617	358,214	376,850	365,264
Rebate (INR mn)	23,878	27,147	31,235	45,196	57,150	64,374	69,268
Rebate as % to sales	12.8%	13.7%	14.5%	15.2%	16.0%	17.1%	19.0%

Source: Company, JM Financial

Exhibit 7. Asian Paints' financial summary

Financial Summary (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	352,489	336,268	350,890	382,638	420,797
Sales growth (%)	2.9%	-4.6%	4.3%	9.0%	10.0%
EBITDA	75,850	60,062	63,455	69,203	77,183
EBITDA Margin (%)	21.4%	17.7%	18.0%	18.0%	18.2%
Adjusted net profit	54,089	40,169	42,613	47,290	53,560
EPS (INR)	56.4	41.9	44.4	49.3	55.8
EPS growth (%)	31.5%	-25.7%	6.1%	11.0%	13.3%
ROIC (%)	41.2%	25.9%	27.3%	30.0%	33.3%
ROE (%)	31.2%	21.1%	21.5%	22.5%	23.6%
PE (x)	42.0	56.6	53.3	48.1	42.4
Price/Book Value (x)	12.1	11.7	11.3	10.4	9.6
EV/EBITDA (x)	29.2	36.9	34.7	31.6	28.2
Dividend Yield (%)	1.4%	1.0%	1.3%	1.5%	1.6%

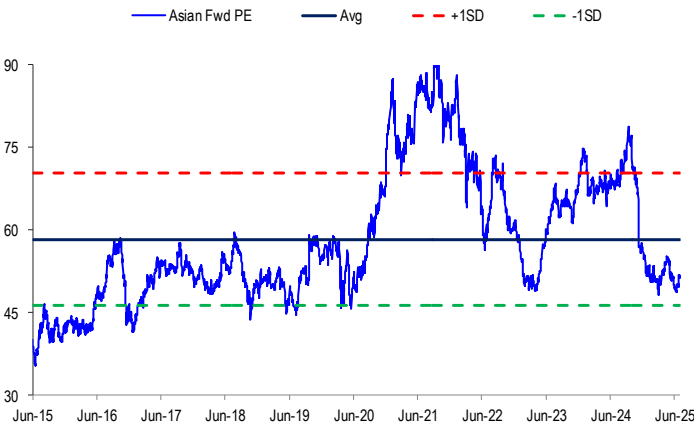
Source: Company, JM Financial

Exhibit 8. Asian Paints’ 5yr avg. PE band



Source: Company, Bloomberg, JM Financial

Exhibit 9. Asian Paints’ 10yr avg. PE band



Source: Company, Bloomberg, JM Financial

APPENDIX I

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