

India

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Neutral (no change)

Building Materials

Birla Opus: Channel check highlights

- Birla Opus has priced its products at par with other challenger brands and stepped up its aggression in dealer onboarding as well as focus on influencers.
- Our channel check shows that Birla Opus aims to aggressively add more contractors in key markets & stepped-up sampling activities at painter level.
- Retain cautious stance on the sector as Grasim can disrupt pricing discipline, necessitating higher ad spending by its peers, limiting margin expansion.

Products priced at c.5% discount to APNT but similar to other peers

- In the past, paint majors have largely kept pricing at a similar level, taking price hikes/cuts in tandem with the industry (Fig. 3). Birla Opus is launching products at a 5% discount to Asian Paints or APNT (like other incumbents) in most categories barring its luxury range, which is priced in tandem with the industry (APNT expected to cut prices by 3-5% in Apr 2024F). In addition, as a launch offer, it is also offering a 10% additional quantity in water-based products to its customers.

Building optimism at the dealer level

- Our channel check indicates that Birla Opus' sales representatives are promising a more conducive environment for its dealers – offering better transparency and a rewarding loyalty program. Additionally, its dealers can also avail financing via Aditya Birla Capital. At its launch event, it announced free tinting machines for dealers, which are 40% smaller in footprint compared to the incumbents' tinting machines.

Aggressive sampling initiatives at the painter level

- At its launch event, Birla Opus had announced that 300k influencers were onboarded to its influencer platform. Our channel check indicates that Birla Opus has stepped up aggression in the sampling of its products by launching a 1-litre pouch, which is given to painters/influencers for free to sample the product, which is aimed at increasing the offtake as well as testing its quality.

Targets a strong position in metro/tier 1-2 markets

- Our channel check indicates that Birla Opus will aim at garnering a strong market share in metros and tier 1-2 markets, where the incumbent, Asian Paints, has a strong share (c.70%, as per channel check). Rs100bn guidance for FY27F-end translates into a 10% market share (refer Fig. 5 & 6) which will be through gains from unorganized players and incumbents. Grasim raised Rs12.5bn from International Finance Corporation (IFC) by issuing non-convertible debentures or NCDs on 19 Mar 2024.

Retain our cautious stance on the industry

- The aggression by Birla Opus in pricing its products, dealer onboarding and sampling at the influencer level should lead to a gradual market share loss for the incumbents. While it would be premature to call out the success of Birla Opus, we believe the industry has become less attractive and hence, we reiterate our cautious stance on the sector, with a REDUCE rating on Asian Paints and Kansai Nerolac Paints and a HOLD rating on Berger Paints.

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Figure 1: Dealer price list – summary

Product SKU (Rs/10L)	Birla Opus	Asian Paints	Difference (%)
Enamel- Premium Category	1,918-2,439	2,018-2,567	5-6
Interior			
Luxury	4,743	4,743	0
Premium	2,475	2,605	5
Economy	606	592-617	2
Exterior			
Premium	2,430	2,557	5
Economy	1,140-1,483	1,200-1,561	5
Water Proofing	2,280	2,400	5
Wood Primer	1,635-1,722	1,721-1,812	5
Metal Primer	2,190-2,289	2,520-3,041	5-13

SOURCE: INCRED RESEARCH

Birla Opus: Channel check highlights

Birla Opus is pricing its products c.15% below that of Asian Paints ➤

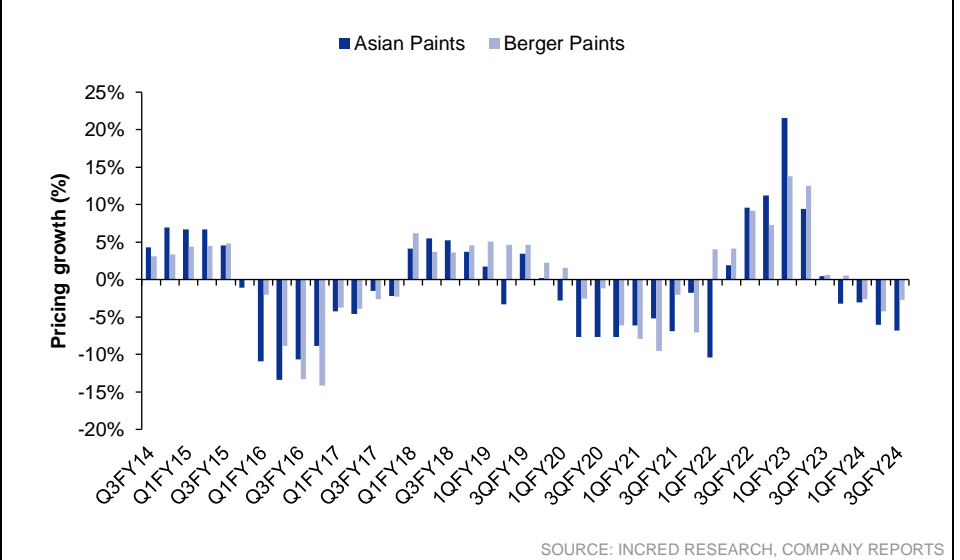
- In the past, paint majors have largely kept pricing at a similar level, taking price hikes/cuts in tandem with the industry (Fig. 3), which is largely led by APNT.
- Birla Opus is launching its products at a 5% discount to that of Asian Paints (but largely like other peers) in most categories barring its luxury range, which is priced in tandem with the industry (channel check indicates possibility of a c.3-5% cut in pricing by Asian Paints in Apr 2024F).
- In addition, as a launch offer, Birla Opus is also offering a 10% additional quantity in water-based products to its customers. The effective discount vs. the industry is around 15%.

Figure 2: Dealer price list

Product	Asian Paints	Birla Opus	Difference (%)
Enamels			
Premium Category (Rs/10L)			
Sparkle Gloss White	2,180	2,052	-5.9%
Sparkle Gloss- Shades Group A	2,018	1,918	-5.0%
Sparkle Gloss- Shades Group B	2,254	2,142	-5.0%
Sparkle Stain- White	2,567	2,439	-5.0%
Sparkle Stain- Shades (Per ltr)	261	248	-5.0%
Interior coatings			
Luxury Category (Rs/10L)			
White	4,743	4,743	0.0%
Premium (Rs/10L)			
White	2,605	2,475	-5.0%
Economy (Rs/10kg)			
Distemper-Pastel/mid-tone	617	606	-1.8%
Distemper- White	592	606	2.4%
Exterior coatings			
Premium (Rs/10L)			
White	2,557	2,430	-5.0%
Economy (Rs/10L)			
White (power bright shine)	1,561	1,483	-5.0%
Tintable white (style power fit)	1,200	1,140	-5.0%
Waterproofing			
Damp Proof- White (Rs/10L)	2,400	2,280	-5.0%
Crackseal (per kg)	287	273	-4.9%

SOURCE: INCRED RESEARCH

Figure 3: Industry pricing actions have moved in tandem over the last decade



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Anecdotes from the industry

Asian Paints >

Asian Paints targets Rs1,000bn in revenue over the next decade.

The following are the highlights from a TV interview with Mr. Amit Syngle, CEO & MD of Asian Paints in Feb 2024:

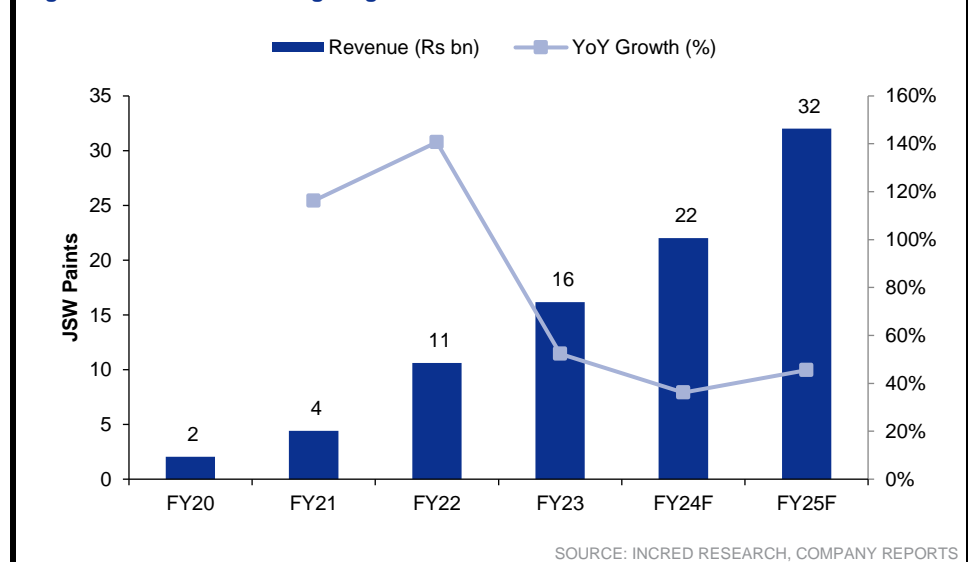
- Asian Paints is targeting Rs1,000bn in revenue over the next decade, led by product expansion and a higher focus on both mass and luxury segments.
- Services offerings are expected to reach 10% of sales in the future. Industrial business is expected to grow from 4-5% of sales currently to 7-8% of sales in the future.
- The focus on backward integration will remain strong. 12% of the total revenue currently comes from new and innovative products.
- The EBITDA margin is expected to remain in the 18-20% range in the future, with savings reinvested into brand-building initiatives.

JSW Paints >

JSW Paints has set a target of Rs32bn/Rs50bn in revenue by FY25F/FY26F, respectively.

- JSW Paints launched its products in 2019. By the end of FY20, it clocked Rs2bn in sales, which is expected to grow to Rs22bn by the end of FY24F, achieving EBITDA-level breakeven.
- The share of new products to revenue is currently at 15% for JSW Paints, which is expected to remain in the 10-15% range in the near term. 60-65% of JSW Paints' overall revenue comes from the decorative paint segment currently.
- JSW Paints aims to expand its new products and finishes across segments. The company expects the mix of decorative products to touch 75% gradually.
- The company currently operates two plants with a capacity of 210mLpa.
- Management is targeting Rs32bn/Rs50bn in revenue in FY25F/26F, respectively. Every year it adds c.2,000 dealers to its network.

Figure 4: JSW Paints is targeting Rs22bn/Rs32bn in revenue in FY24F/FY25F



Birla Opus targets EBITDA-level breakeven at Rs100bn in sales over the next three years.

Birla Opus ➤

The 5D strategy outlined during the launch event on 22 Feb 2024:

- **Design:** 145 products across six categories (1,200 stock-keeping units or SKUs) have been planned, which includes waterproofing, enamel-based paints and wood finishes. Consumers will be offered 2,300+ tintable colours. Management believes the company's products will set new benchmarks. 95% of the contractors/painters ranked Birla Opus as No.1, as per management.
- **Develop:** All its six facilities have the best-in-class features with the latest, high-capacity machines. Storage and warehousing have also been automated. Its demand planning tool will capture data from 6,000 towns and integrate with manufacturing.
- **Distribution:** Starting from mid-March 2024, its products will be launched in Punjab, Tamil Nadu and Haryana, after which they will be extended pan-India. The paint products will be available in all markets with a population above 50k. Dealers will be given a free tinting machine (40% smaller footprint) which is connected via Internet of Things or IoT to Birla's manufacturing backend. The company's focus will be to improve the working capital efficiency for its dealers. The warehousing network is being bolstered (150 targeted). Financing options will be given via its financial arm Aditya Birla Capital. Dealers will be given a technologically superior experience via app, with things like analytics built in for them.
- **Disrupt: For the influencer** - 300k painters and contractors have signed up. Now, it is the second-largest influencer network (even before launch); Udaan - Partnership program which allows contractors to showcase work and drive more business; **Loyalty program** with instant redemption and better than industry rewards. Learning centres are also being established to educate the influencer network.
- **Delight:** Birla Opus is taking a series of industry first steps: 1) Opus paint studios in 11 cities and Opus galleries across 300 markets. 2) Track-and-trace system to allow end-to-end traceability of its products. 3) Will set new standards in assurances - Will offer an additional year of warranty on water-based enamels and wood-based products. 4) Digital experience with artificial intelligence or AI-enhanced tools to help select paints. 5) Paint craft services (company- operated) and 6) Extra 10% quantity in for most water-based paint products.
- Management is targeting breakeven at a revenue of Rs100bn within three years of operations.
- Manufacturing facilities have been planned so that the products can reach pan-India. Ludhiana, Panipat and Cheyyar plants have commenced operations. The fourth and fifth plant will start in 1Q/2Q-FY25F, respectively, and the last facility will be ready by the end of FY25F. The company also has the option to increase its capacity by 500mLpa at a lower cost in the future.

Figure 5: We expect unorganized players to post slower growth between FY23-FY27F..

Decorative segment (Rs bn)	FY23	FY27F	CAGR (%)
Asian Paints (S)	269	420	12%
Berger Paints (S)	76	100	7%
Kansai Nerolac (S)	41	50	5%
Akzo Nobel	23	29	6%
Indigo Paints	10	14	9%
JSW*	10	30	33%
Shalimaar Paints	5	8	14%
Grasim	-	100	
Organized players	433	751	15%
Unorganized players	187	249	7%
Total Domestic Decorative Market	620	1,000	13%

SOURCE: INCRED RESEARCH, COMPANY REPORTS
 *MANAGEMENT INTERVIEWS

Figure 6: ..losing 5.1% market share while organized players lose 4.9% to make way for Birla Opus

Market share (%)	FY23	FY27F	Change (%)
Asian Paints (S)	43%	42%	-1.4%
Berger Paints (S)	12%	10%	-2.3%
Kansai Nerolac (S)	7%	5%	-1.6%
Akzo Nobel	4%	3%	-0.8%
Indigo Paints	2%	1%	-0.2%
JSW	2%	3%	1.4%
Shalimaar Paints	1%	1%	0.0%
Grasim	0%	10%	10.0%
Organized players share	70%	75%	5.1%
Unorganized players share	30%	25%	-5.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Valuation

Figure 7: Asian Paints' one-year forward P/E trades at -1SD

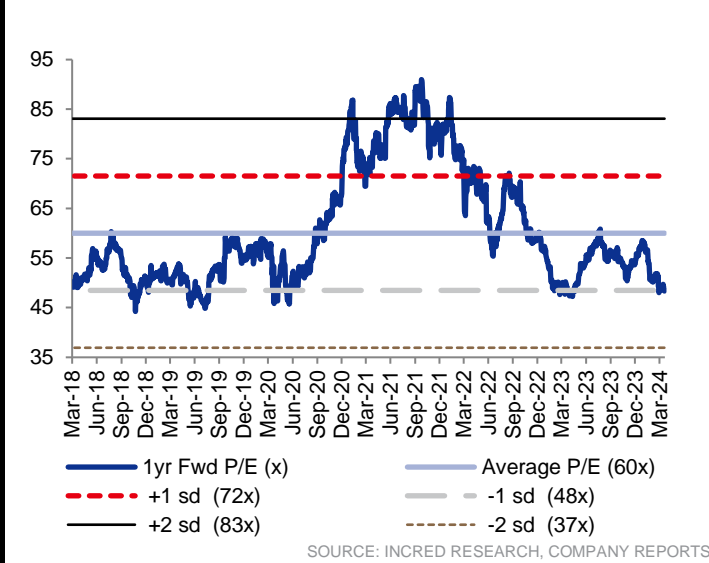


Figure 8: Berger Paints' one-year forward P/E trades close to -1SD

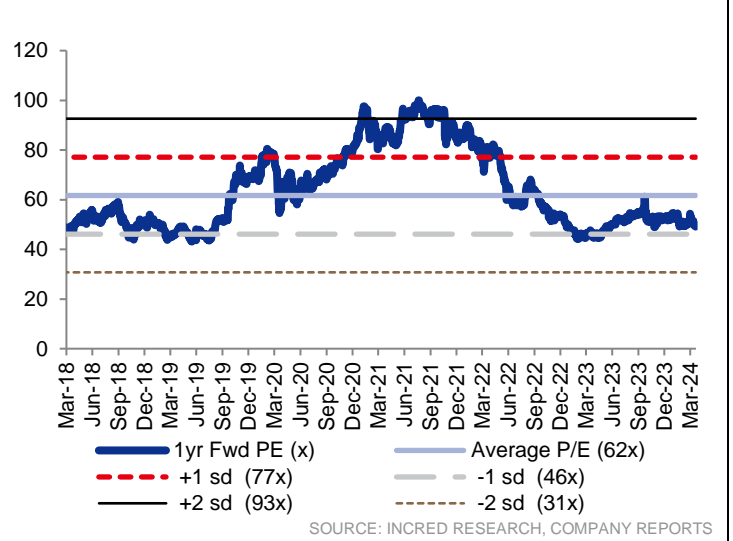


Figure 9: Kansai Nerolac Paints' one-year forward P/E trades close to -2SD

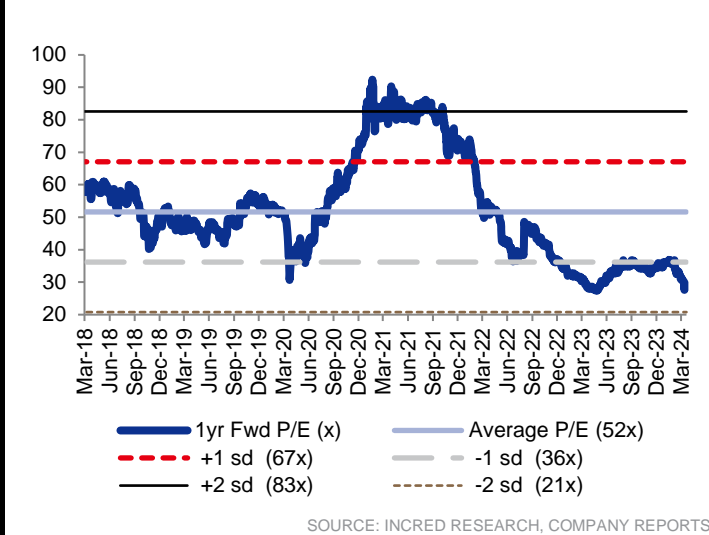
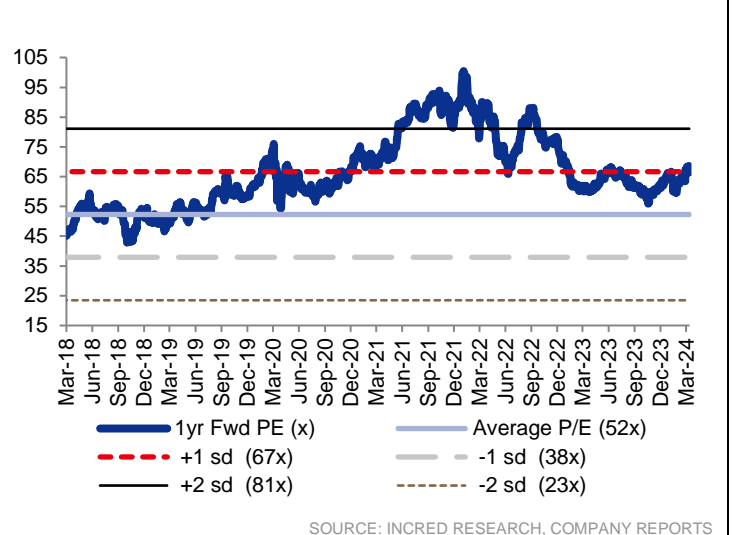


Figure 10: Pidilite Industries' one-year forward P/E trades at +1SD



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