

India

Neutral (no change)**Highlighted Companies****Asian Paints Limited****REDUCE, TP Rs3000, Rs3136 close**

Asian Paints is expected to post higher margins in 3QFY24F, led by a better mix and improved sales growth. Post 4QFY24F, we expect the rebating intensity to step up further due to intense competition.

Berger Paints India Limited**HOLD, TP Rs600, Rs574 close**

While Berger Paints India has achieved a healthy market share of 20% in 1HFY24, we expect the higher competitive intensity to exert some pressure on its position.

Kansai Nerolac Paints Limited**REDUCE, TP Rs305, Rs320 close**

While Kansai Nerolac Paints is taking the right steps, we believe it made a late start and expect the increased competitive intensity to impact its sales growth/margins.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Asian Paints Limited	56.56	54.13	51.76
Berger Paints India Limited	48.48	50.51	47.21
Kansai Nerolac Paints Limited	82.35	22.75	21.63
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Asian Paints Limited	16.18	14.25	12.66
Berger Paints India Limited	12.77	11.15	9.82
Kansai Nerolac Paints Limited	3.23	3.1	3.01
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Asian Paints Limited	0.96%	0.99%	1.03%
Berger Paints India Limited	0.84%	0.87%	0.93%
Kansai Nerolac Paints Limited	2.61%	3.08%	3.63%

Building Materials

2QFY24 results review

- Our paint portfolio posted a 1.3% yoy sales growth in 2QFY24, tapering off from 18.5%/6.8% yoy growth in 2QFY23/1QFY24, because of weak demand.
- Moderation of input costs aided margin expansion in 1HFY24. While we expect the trend to continue, the competitive intensity is expected to play spoilsport.
- We have a HOLD rating on BRGR (TP: Rs600) & Pidilite (TP: Rs2,545) and a REDUCE rating on KNPL (TP:Rs305) & APNT (TP:Rs3,000).

Consumer sentiment remained weak in 1HFY24

Barring an uptick in Sep 2023, most players reported subdued demand in the decorative segment during 2QFY24. Urban markets grew faster than rural markets in 2Q but on a four-year CAGR, both urban and rural markets grew in double digits. Pidilite Industries posted better growth in rural markets led by growth in tile adhesives, Araldite (volume growing by 20% now vs. 6-8% pre-acquisition) and other innovative ranges, which have been doing well in rural & semi-urban markets. Sporadic monsoons impacted categories like exterior/interior emulsions (especially at the premium-end), enamels, etc. The economy segment largely performed better than the premium range for most players. Waterproofing and construction chemicals maintained their growth momentum. The extended festive and marriage seasons, in our view, are expected to drive better growth in 2HFY24F.

Industrial segment drives growth for most players

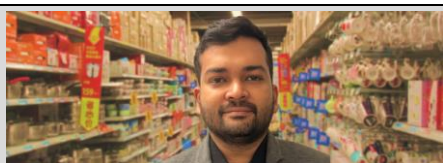
For Kansai Nerolac Paints (KNPL), the decorative segment growth was flat (ex-putty) while Asian Paints (APNT)/Berger Paints (BRGR) registered 6%/10% volume growth, respectively. Pidilite Industries reported an 8.4% volume growth in 2Q. APNT's industrial segment posted a 7.5% yoy growth led by 6%/11% growth in automotive/general industrial divisions, respectively, following a healthy growth in OEM, refinish and protective/powder coating sub-segments. For Berger Paints, the automotive and general industrial segments posted double-digit growth on a high base, led by growth in the commercial vehicle and two-wheeler sectors.

Margin expansion aided by moderation in input costs

Paint majors posted healthy gross margin expansion, despite lower value growth, during the quarter led by moderation in input costs. Prices of vinyl acetate monomer (VAM) declined to US\$1,000/t in 2QFY24 (vs. US\$2,500/t in 2QFY23) while paint players gained from lower prices of Brent crude oil, titanium dioxide (TiO₂) and acetic acid. On a qoq basis, aggregate EBITDA margin contracted by 153bp to 19.3% (up 505bp yoy) due to a 7.7% qoq decline in value growth in 2QFY24.

HOLD Berger Paints & Pidilite Industries; REDUCE KNPL & APNT

With the competitive intensity now higher than ever before and valuations staying lofty, we retain our HOLD rating on Berger Paints (TP: Rs600) & Pidilite Industries (TP: Rs2,545) and REDUCE rating on Kansai Nerolac Paints or KNPL (TP: Rs305) & Asian Paints or APNT (TP: Rs3,000), as we see a limited near-term upside.

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Figure 1: 2QFY24 review of our coverage universe

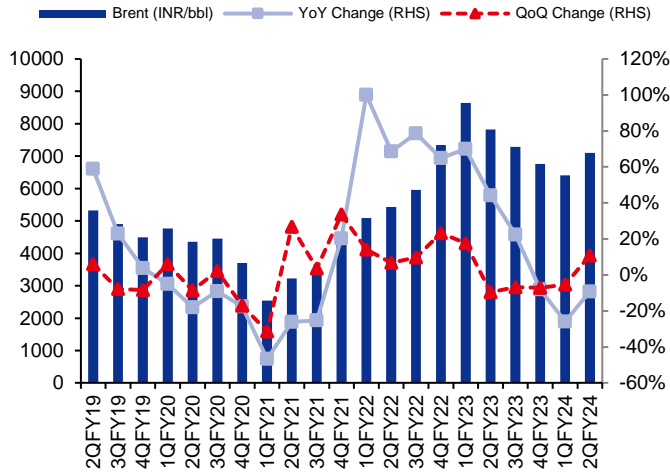
Company	Revenue (Rs m)	% chg (yoy)	EBITDA (Rs m)	% chg (yoy)	Net Profit (Rs m)	% chg (yoy)
Asian Paints	84,786	0.2%	17,162	39.8%	12,053	54.0%
Berger Paints	27,673	3.6%	4,737	30.1%	2,916	33.0%
Kansai Nerolac Paints	19,565	1.3%	2,732	37.1%	1,772	56.0%
Pidilite Industries	30,760	2.2%	6,797	36.0%	4,502	35.4%
Total	1,62,785	1.3%	31,428	37.2%	21,243	46.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY24 results review

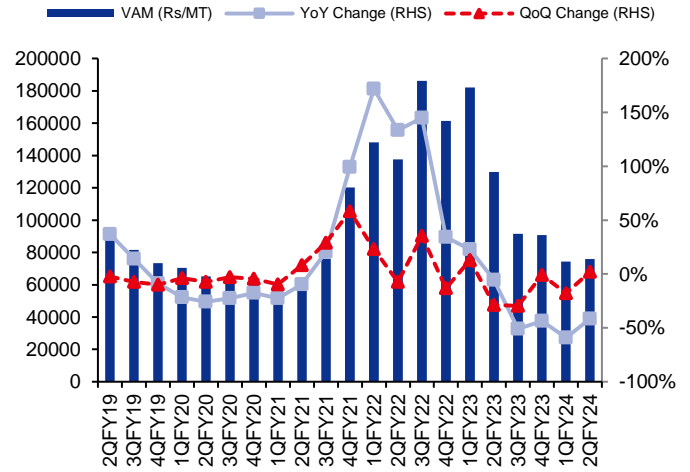
Price movement of key raw materials

Figure 2: Brent crude oil prices (INR/bbl) declined by 9% yoy in 2QFY24



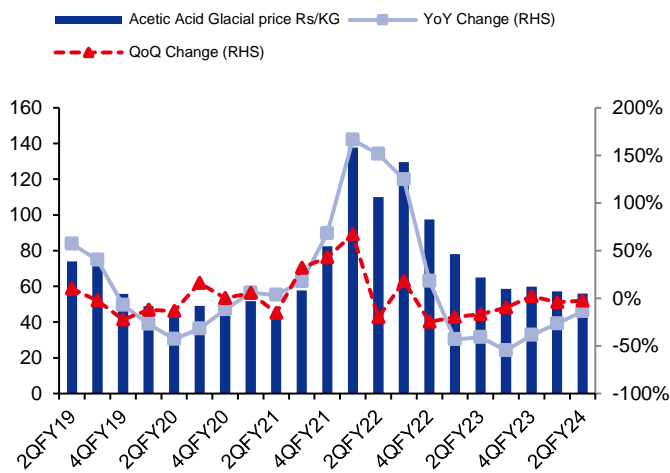
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Prices of vinyl acetate monomer (VAM) declined by 41% yoy in 2QFY24



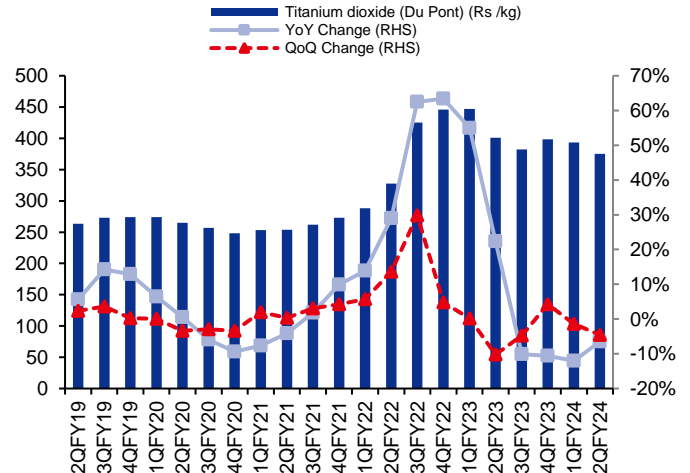
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Prices of acetic acid declined by 14% yoy in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Prices of titanium dioxide (TiO2 Du Pont) declined by 6% yoy in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

REDUCE (no change)

Consensus ratings*: Buy 11 Hold 11 Sell 15

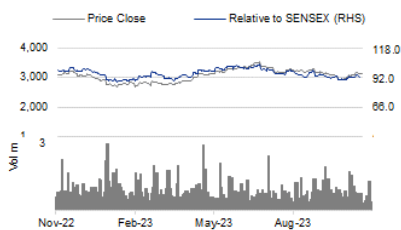
Current price: Rs3,136
 Target price:  Rs3,000
 Previous target: Rs3,000
 Up/downside: -4.3%
 InCred Research / Consensus: -6.5%

Reuters: ASPN.NS
 Bloomberg: APNT IN
 Market cap: US\$36,079m
 Rs3,008,188m
 Average daily turnover: US\$33.6m
 Rs2800.5m
 Current shares o/s: 959.2m
 Free float: 47.2%

*Source: Bloomberg

Key changes in this note

➤ Lower FY25F/26F EPS by 1.9%/3.7%

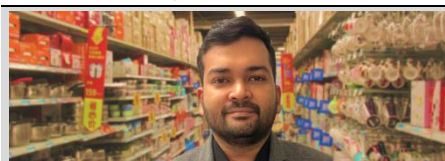


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.1	(2.8)	0.7
Relative (%)	(1.3)	(4.4)	(4.9)

Major shareholders	% held
Promoter and Promoter Group	52.8
LIC	4.5
Vanguard Group	1.9

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Asian Paints Limited

Margins likely to peak in 3QFY24F

- Consolidated sales growth came in flat at 0.2% yoy in 2QFY24, with a flat growth in the decorative business. Industrial business posted a higher growth.
- Margins are likely to peak in 3QFY24F, aided by improvement in the sales mix and optimism on the festive season demand, with benign raw material prices.
- With competition intensifying as Grasim enters the market, we see limited room for margin expansion in the near term. Retain REDUCE with a TP of Rs3,000.

Near-term growth likely to be led by price cuts

Asian Paints' (APNT) reported flat (+0.5%) sales growth in its decorative business, driven by a 6% volume growth, indicating price cut of 5.5% in 2Q, compared to 9.4% price hike in the base. The industrial segment posted faster growth in 2Q. Urban markets grew faster than rural markets. Projects business reported a healthy growth, as per management, with continued growth in the waterproofing/construction chemicals range. The international business division's (IBD) sales declined by 5% yoy, with a PBT margin of 5.2%, down 97bp yoy, largely driven by the macroeconomic uncertainty and forex-related constraints in key markets of South Asia and Egypt while the Middle East market supported IBD sales growth. With competitive intensity expected to step up from 4QFY24F post Grasim's entry, we expect the pricing to remain as key lever for continued growth as the consumer sentiment is likely to remain subdued, barring a festive led uptick, which may impact volume growth.

Home décor biz remains muted; industrial segment drives growth

Home décor sales continued to remain subdued due to weak consumer sentiment. Kitchen business declined by 18% yoy, with the PBT margin slipping back into the negative zone after one quarter of PBT level breakeven. The bath business continued to remain under pressure, declining by 20% yoy in 2Q, with a PBT margin loss of 3.7%. New product launches, network and store expansion continued in 2Q. Within the industrial business, PPG-AP grew by 5.6% yoy, with the PBT margin improvement yoy from 12.1% in the base, to 15.6% in 2Q while AP-PPG grew 11.6% yoy.

Margins likely to taper off gradually from here on; retain REDUCE

With some of the demand deferred to 3Q due to the delayed festive season, we expect a gradual recovery in volume but value growth will likely remain subdued as APNT steps up its rebating intensity, leading to further price cuts in the decorative segment while healthy performance from the industrial business is likely to drag down margins. In addition, commodity deflation is largely over in 1HFY24, and volatile crude oil prices are expected to impact the ability to take pricing decisions in 2HFY24F. We expect a challenging 2HFY24F, largely led by 1) volatile crude oil prices, 2) higher competitive intensity from Grasim's entry, and 3) lower pricing power in the case of raw material price inflation. We maintain our REDUCE rating on APNT with a target price of Rs3,000 (50x Sep 2025F EPS). Upside risks: Maintaining its market share despite the new entrant in the paints space.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	291,013	344,886	372,085	403,731	441,608
Operating EBITDA (Rsm)	48,036	62,598	76,509	79,735	83,460
Net Profit (Rsm)	30,308	41,065	53,188	55,569	58,119
Core EPS (Rs)	32.5	43.2	55.5	57.9	60.6
Core EPS Growth	(3.1%)	32.9%	28.4%	4.5%	4.6%
FD Core P/E (x)	99.26	73.26	56.56	54.13	51.76
DPS (Rs)	19.1	24.6	30.1	31.0	32.2
Dividend Yield	0.59%	0.64%	0.96%	0.99%	1.03%
EV/EBITDA (x)	62.40	47.87	38.77	37.05	35.22
P/FCFE (x)	260.19	132.94	60.85	70.55	64.39
Net Gearing	(10.0%)	(9.8%)	(24.3%)	(27.1%)	(30.4%)
P/BV (x)	21.19	18.81	16.18	14.25	12.66
ROE	23.1%	27.4%	30.8%	28.0%	25.9%
% Change In Core EPS Estimates			(0.68%)	(1.92%)	(3.67%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Margins likely to peak in 3QFY24F

Figure 6: Quarterly summary - consolidated

Y/E, Mar (Rs m)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	(%)
Revenue	84,576	91,823	84,786	0.2	-7.7	1,70,645	1,76,609	3.5
Expenditure	72,299	71,017	67,623	-6.5	-4.8	1,42,809	1,38,641	-2.9
Consumption of RM	54,356	52,404	48,015	-11.7	-8.4	1,07,975	1,00,419	-7.0
as % of sales	64.3	57.1	56.6			63.3	56.9	
Employee Costs	5,126	5,864	5,961	16.3	1.7	10,022	11,825	18.0
as % of sales	6.1	6.4	7.0			5.9	6.7	
Other Expenditure	12,816	12,750	13,648	6.5	7.0	24,811	26,397	6.4
as % of Sales	15.2	13.9	16.1			14.5	14.9	
EBITDA	12,277	20,806	17,162	39.8	-17.5	27,837	37,968	36.4
Depreciation	2,157	1,983	2,087	-3.2	5.2	4,238	4,070	-4.0
EBIT	10,120	18,823	15,075	49.0	-19.9	23,599	33,898	43.6
Other Income	955	1,971	1,652	73.0	-16.2	1,944	3,623	86.3
Interest	354	458	509	43.8	11.3	642	967	50.7
PBT	10,721	20,336	16,218	51.3	-20.2	24,901	36,554	46.8
Total Tax	2,903	5,301	4,186	44.2	-21.0	6,609	9,487	43.5
PAT	7,817	15,035	12,033	53.9	-20.0	18,292	27,067	48.0
Minority Interest	-10	-62	-22	122.7	-65.2	54	-84	-255.7
Adjusted Net Profit	7,827	15,097	12,054	54.0	-20.2	18,239	27,151	48.9
Extraordinary Items	0	-407	0	NA	-100.0	242	-407	-268.1
Reported Net Profit	7,827	15,504	12,054	54.0	-22.2	17,996	27,558	53.1
Adjusted EPS	8.2	15.7	12.6	54.0	-20.2	19.0	28.3	48.9
Margins (%)	2QFY23	1QFY24	2QFY24	YoY (bp)	QoQ (bp)	1HFY23	1HFY24	(bp)
Gross Margin	35.7	42.9	43.4	760	40	36.7	43.1	640
EBITDA	14.5	22.7	20.2	570	-240	16.3	21.5	520
EBIT	12.0	20.5	17.8	580	-270	13.8	19.2	540
EBT	12.7	22.1	19.1	650	-300	14.6	20.7	610
PAT	9.2	16.4	14.2	490	-220	10.7	15.3	460
Effective Tax Rate	27.1	26.1	25.8	-130	-30	26.5	26.0	-60

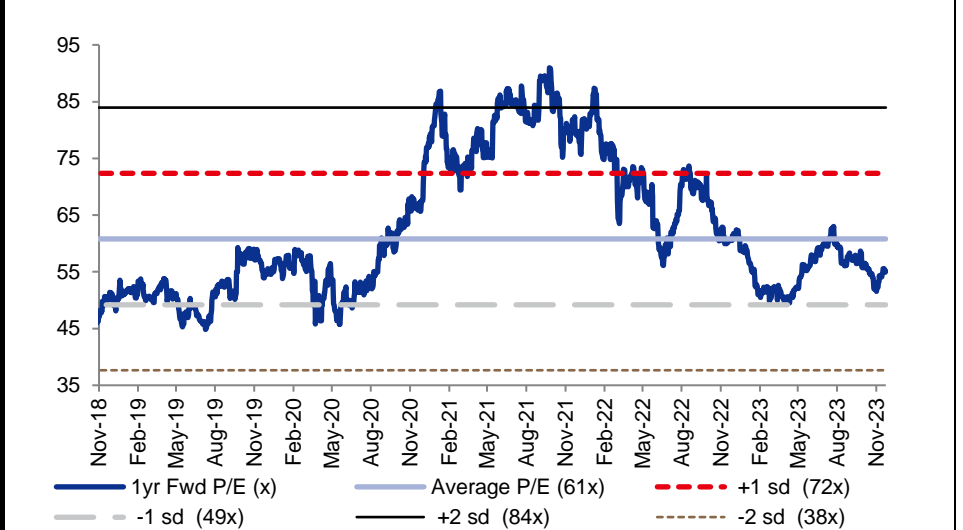
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Introduced	% Change
Revenue	3,74,048	3,72,085	(0.5)	4,06,200	4,03,731	(0.6)	4,44,664	4,41,608	(0.7)
EBITDA	76,998	76,509	(0.6)	81,193	79,735	(1.8)	86,429	83,460	(3.4)
EBITDA Margin (%)	20.6	20.6	-2bp	20.0	19.7	-24bp	19.4	18.9	-54bp
Net Profit	53,553	53,188	(0.7)	56,658	55,569	(1.9)	60,336	58,119	(3.7)
EPS	55.8	55.5	(0.7)	59.1	57.9	(1.9)	62.9	60.6	(3.7)

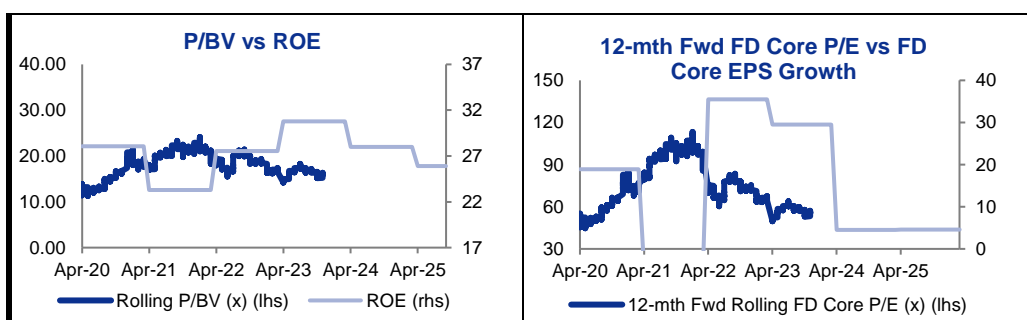
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asian Paints' one-year forward P/E trades between its five-year average and -1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	291,013	344,886	372,085	403,731	441,608
Gross Profit	108,005	133,321	153,746	165,746	179,596
Operating EBITDA	48,036	62,598	76,509	79,735	83,460
Depreciation And Amortisation	(8,164)	(8,580)	(9,029)	(9,437)	(10,112)
Operating EBIT	39,873	54,018	67,481	70,298	73,348
Financial Income/(Expense)	2,846	2,420	3,655	3,941	4,253
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	42,719	56,439	71,135	74,239	77,601
Exceptional Items	(1,157)	(489)			
Pre-tax Profit	41,562	55,950	71,135	74,239	77,601
Taxation	(11,029)	(14,935)	(17,648)	(18,370)	(19,182)
Exceptional Income - post-tax					
Profit After Tax	30,532	41,015	53,488	55,869	58,419
Minority Interests	(225)	50	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	30,308	41,065	53,188	55,569	58,119
Recurring Net Profit	31,157	41,423	53,188	55,569	58,119
Fully Diluted Recurring Net Profit	31,157	41,423	53,188	55,569	58,119

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	48,036	62,598	76,509	79,735	83,460
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(40,321)	(3,602)	23,889	3,035	3,886
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(954)	(1,445)	(1,065)	(1,051)	(1,025)
Tax Paid	(11,029)	(14,935)	(17,648)	(18,370)	(19,182)
Cashflow From Operations	(4,268)	42,617	81,685	63,349	67,139
Capex	(7,801)	(17,170)	(30,426)	(25,700)	(25,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	18,693	(6,277)	3,856	4,992	5,278
Cash Flow From Investing	10,892	(23,447)	(26,570)	(20,708)	(20,422)
Debt Raised/(repaid)	4,938	3,457	(5,676)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(17,628)	(19,361)	(28,881)	(29,703)	(30,842)
Preferred Dividends					
Other Financing Cashflow	(115)	(3,128)	1,079	(682)	(682)
Cash Flow From Financing	(12,805)	(19,031)	(33,478)	(30,385)	(31,524)
Total Cash Generated	(6,181)	140	21,637	12,256	15,193
Free Cashflow To Equity	11,561	22,628	49,439	42,641	46,717
Free Cashflow To Firm	7,578	20,615	56,180	43,693	47,741

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	30,450	35,408	59,952	72,208	87,401
Total Debtors	38,738	46,391	36,551	37,825	39,253
Inventories	61,530	62,106	56,392	58,329	60,630
Total Other Current Assets	28,743	30,340	27,292	27,292	27,292
Total Current Assets	159,461	174,246	180,187	195,655	214,576
Fixed Assets	57,026	65,616	87,013	103,276	118,864
Total Investments	10,668	15,647	17,345	17,345	17,345
Intangible Assets	2,429	2,285	2,429	2,429	2,429
Total Other Non-Current Assets			527	570	624
Total Non-current Assets	70,123	83,548	107,313	123,619	139,261
Short-term Debt	9,440	11,275	5,440	5,440	5,440
Current Portion of Long-Term Debt					
Total Creditors	61,741	67,797	73,082	79,142	86,529
Other Current Liabilities	697	742			
Total Current Liabilities	71,878	79,815	78,522	84,582	91,969
Total Long-term Debt	6,429	8,051	8,210	8,210	8,210
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	6,429	8,051	8,210	8,210	8,210
Total Provisions	6,109	6,211	6,532	6,761	7,042
Total Liabilities	84,415	94,077	93,264	99,553	107,222
Shareholders Equity	141,991	159,922	185,878	211,062	237,657
Minority Interests	3,875	4,537	4,475	4,775	5,075
Total Equity	145,866	164,459	190,353	215,837	242,733

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	34.0%	18.5%	7.9%	8.5%	9.4%
Operating EBITDA Growth	(1.1%)	30.3%	22.2%	4.2%	4.7%
Operating EBITDA Margin	16.5%	18.2%	20.6%	19.7%	18.9%
Net Cash Per Share (Rs)	15.20	16.77	48.27	61.05	76.89
BVPS (Rs)	148.03	166.72	193.78	220.04	247.77
Gross Interest Cover	41.79	37.40	63.33	66.86	71.56
Effective Tax Rate	26.5%	26.7%	24.8%	24.7%	24.7%
Net Dividend Payout Ratio	56.0%	46.6%	54.3%	53.5%	53.1%
Accounts Receivables Days	40.63	45.05	40.68	33.62	31.85
Inventory Days	99.24	106.65	99.05	87.97	82.86
Accounts Payables Days	114.83	111.74	117.75	116.73	115.40
ROIC (%)	31.6%	39.1%	49.2%	46.7%	45.1%
ROCE (%)	26.1%	31.4%	34.9%	32.6%	30.4%
Return On Average Assets	13.3%	16.0%	18.3%	17.1%	16.1%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic decorative revenue growth	4.5%	28.6%	22.3%	2.8%	3.8%
EBIDTA margins	16.5%	18.2%	20.6%	19.7%	18.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

HOLD (no change)

Consensus ratings*: Buy 4 Hold 5 Sell 14

Current price: Rs574
 Target price: Rs600
 Previous target: Rs583
 Up/downside: 4.5%
 InCred Research / Consensus: 10.5%

Reuters: BRGR.NS
 Bloomberg: BRGR IN
 Market cap: US\$8,019m
 Rs668,591m
 Average daily turnover: US\$7.8m
 Rs653.0m
 Current shares o/s: 971.3m
 Free float: 25.0%

*Source: Bloomberg

Key changes in this note

- Raise the target price to Rs600 from Rs583 earlier.
- Raise FY24F/25F EPS by 5.5%/3.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.5	(3.5)	11.9
Relative (%)	(2.8)	(5.1)	5.7

Major shareholders	% held
Promoter and Promoter Group	75.0
LIC	1.7
Vanguard Group	0.9

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Berger Paints India Limited

Gradual uptick expected

- Berger Paints' standalone sales/volume growth stood at 2.8%/10.9% yoy, respectively, in 2QFY24. Market share remained healthy at 20% in 1HFY24.
- Gross/EBITDA margins expanded by 580bp/350bp yoy to 41.1%/17.1% in 2Q. Management sees the FY24F EBITDA margin in the range of 17-18%.
- Due to heightened competitive intensity and lofty valuation, we retain our HOLD rating on the stock with a higher TP of Rs600 (50x Sep 2025F EPS).

Market share at an all-time high in 1HFY24

Berger Paints India's (BRGR) 2QFY24 standalone sales growth stood at 2.8% yoy, with volume growth at 10.9%. Value sales were lower on account of sporadic monsoons, shift in festive demand to 3Q and a high base. BRGR maintained its highest-ever market share at 20% in 1HFY24 (vs.18.6%/19%/19.3% in FY21/FY22/FY23, respectively). The economy range performed better than premium offerings. The waterproofing/construction chemicals segment continued to post a healthy growth and is likely to see more product launches next year as the range is currently c.70-75% complete. Industrial business posted better growth, with a double-digit growth in the automotive and general industrial segments. Management is hopeful of stronger growth in 3QFY24F, with an improvement in mix, which is likely to aid in double-digit growth in FY24F.

Subsidiaries remain a mixed bag

BRGR's overseas subsidiaries' sales were driven by Bolix SA and STP, which posted strong growth. SBL Specialty Coatings posted strong double-digit growth, with improved realization and is expected to continue to grow in double digits in 3QFY24F. Berger Nippon Automotive Coatings saw another quarter of robust growth led by the passenger vehicle and SUV segments. Nepal operations continued to decline, hit by slowdown in the construction sector and is likely to remain marginally negative in 3QFY24F. Berger Becker Coatings posted a decline because of capacity constraints due to a fire incident in 4QFY23. Domestic subsidiaries are expected to maintain their growth momentum.

Margin expansion aided by moderation of input costs

BRGR's consolidated gross margin expanded by 580bp yoy to 41.1%. Consolidated EBITDA grew by 30.1% yoy to Rs4.7bn while the EBITDA margin expanded by 350bp yoy to 17.1%. Given the benign raw material prices and an extended festive season, management expects the consolidated EBITDA margin to be in the range of 17-18% (vs. 16%-17% earlier) in FY24F, notwithstanding the increased spending on advertisements.

Maintain HOLD rating with a higher target price of Rs600

BRGR trades at 50x/47x FY25F/26F EPS, respectively, leaving no room for an upside. We retain HOLD rating on it with a higher target price of Rs600 (Rs583 earlier), based on 50x Sep FY25F EPS. Key upside/downside risks: Higher-than-estimated/lower-than-estimated sales/EBITDA growth, respectively.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	87,618	105,678	117,375	126,929	137,681
Operating EBITDA (Rsm)	13,311	14,872	20,302	21,254	22,617
Net Profit (Rsm)	8,322	8,594	12,641	13,238	14,162
Core EPS (Rs)	8.6	8.8	11.8	11.4	12.1
Core EPS Growth	15.6%	3.3%	33.7%	(4.0%)	7.0%
FD Core P/E (x)	66.94	64.82	48.48	50.51	47.21
DPS (Rs)	3.1	3.5	4.1	4.3	4.6
Dividend Yield	0.63%	0.70%	0.84%	0.87%	0.93%
EV/EBITDA (x)	42.32	38.07	30.14	31.16	28.85
P/FCFE (x)	401.24	232.30	71.80	60.24	42.47
Net Gearing	15.6%	19.8%	(2.0%)	(10.7%)	(23.6%)
P/BV (x)	14.19	12.40	12.77	11.15	9.82
ROE	22.8%	20.4%	26.0%	23.6%	22.1%
% Change In Core EPS Estimates			5.49%	3.79%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gradual uptick expected

Figure 9: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Revenue	26,709	30,295	27,673	3.6	-8.7	54,306	57,968	6.7
Expenditure	23,070	24,728	22,937	-0.6	-7.2	46,618	47,664	2.2
Consumption of RM	17,281	18,231	16,294	-5.7	-10.6	35,012	34,525	-1.4
as % of sales	64.7	60.2	58.9			64.5	59.6	
Employee Costs	1,604	1,669	1,902	18.6	14.0	3,064	3,571	16.6
as % of Sales	6.0	5.5	6.9			5.6	6.2	
Other Expenditure	4,185	4,828	4,740	13.3	-1.8	8,542	9,568	12.0
as % of Sales	15.7	15.9	17.1			15.7	16.5	
EBITDA	3,640	5,568	4,737	30.1	-14.9	7,688	10,304	34.0
Depreciation	625	782	829	32.7	6.0	1,253	1,611	28.6
EBIT	3,015	4,785	3,908	29.6	-18.3	6,435	8,693	35.1
Other Income	126	136	153	21.5	12.5	256	289	12.6
Interest	241	197	211	-12.6	7.0	404	408	1.0
PBT	2,899	4,724	3,850	32.8	-18.5	6,288	8,574	36.4
Total Tax	735	1,213	967	31.6	-20.3	1,621	2,180	34.5
Adjusted PAT	2,165	3,511	2,883	33.2	-17.9	4,667	6,394	37.0
(Profit)/Loss from JV's/Ass./MI	-29	-32	-33	-	-	-61	-66	7.4
APAT after MI	2,194	3,544	2,916	33.0	-17.7	4,728	6,460	36.6
Extraordinary Items	0	0	0	-	-	0	0	-
Reported PAT	2,194	3,544	2,916	33.0	-17.7	4,728	6,460	36.6
Adjusted EPS	2.3	3.6	3.0	33.0	-17.7	4.9	6.7	36.6
Margins (%)	2QFY23	1QFY24	2QFY24	(bps)	(bps)	1HFY23	1HFY24	(bps)
Gross margin	35.3	39.8	41.1	580	130	35.5	40.4	490
EBITDA	13.6	18.4	17.1	350	-130	14.2	17.8	360
EBIT	11.3	15.8	14.1	280	-170	11.8	15.0	310
EBT	10.9	15.6	13.9	310	-170	11.6	14.8	320
PAT	8.2	11.7	10.5	230	-120	8.7	11.1	240
Effective Tax Rate	25.3	25.7	25.1	-20	-60	25.8	25.4	-40

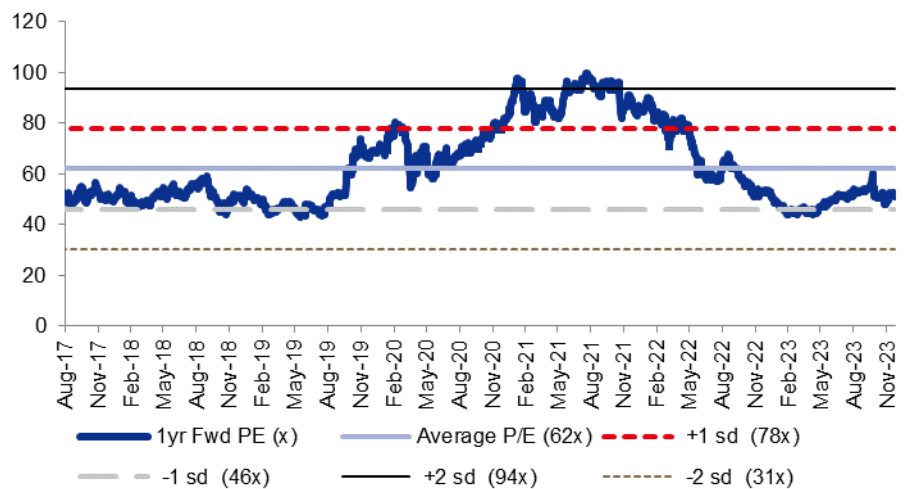
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Our revised earnings estimates

Y/E Mar (Rs. m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net Sales	1,17,580	1,17,375	-0.2	1,28,691	1,26,929	-1.4	1,37,681	1,37,681	0.0
EBITDA	19,436	20,302	4.5	20,632	21,254	3.0	22,617	22,617	0.0
EBITDA Margin (%)	16.5	17.3	80 bp	16.0	16.7	70 bp	16.4	16.4	0 bp
APAT	11,983	12,641	5.5	12,754	13,238	3.8	14,162	14,162	0.0
EPS	10.3	10.8	5.5	10.9	11.4	3.8	12.1	12.1	0.0

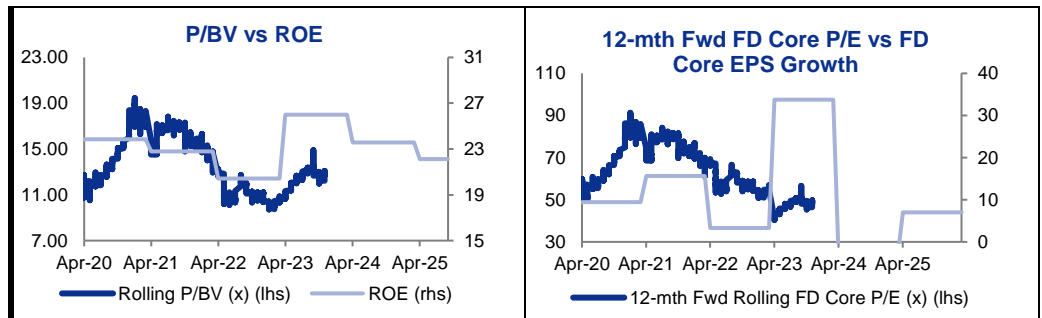
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Berger Paints' one-year forward P/E trades close to -1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	87,618	105,678	117,375	126,929	137,681
Gross Profit	33,327	38,373	46,038	49,673	52,899
Operating EBITDA	13,311	14,872	20,302	21,254	22,617
Depreciation And Amortisation	(2,265)	(2,640)	(3,112)	(3,324)	(3,495)
Operating EBIT	11,046	12,232	17,190	17,930	19,121
Financial Income/(Expense)	139	(477)	(53)	11	64
Pretax Income/(Loss) from Assoc.	33	(132)	(90)	(90)	(90)
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	11,217	11,623	17,047	17,851	19,095
Exceptional Items					
Pre-tax Profit	11,217	11,623	17,047	17,851	19,095
Taxation	(2,893)	(3,019)	(4,406)	(4,613)	(4,933)
Exceptional Income - post-tax					
Profit After Tax	8,324	8,604	12,641	13,238	14,162
Minority Interests	(1)	(10)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,322	8,594	12,641	13,238	14,162
Recurring Net Profit	8,322	8,594	12,641	13,238	14,162
Fully Diluted Recurring Net Profit	8,322	8,594	12,641	13,238	14,162

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	13,311	14,872	20,302	21,254	22,617
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,378)	(2,172)	1,939	(3,052)	495
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(507)	(992)	(591)	(576)	(576)
Tax Paid	(2,893)	(3,019)	(4,406)	(4,613)	(4,933)
Cashflow From Operations	4,532	8,688	17,244	13,013	17,603
Capex	(8,801)	(9,072)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,859	1,028	539	587	640
Cash Flow From Investing	(6,941)	(8,044)	(1,961)	(1,913)	(1,860)
Debt Raised/(repaid)	3,798	1,754	(6,747)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,524)	(3,892)	(5,609)	(5,831)	(6,215)
Preferred Dividends					
Other Financing Cashflow	754	881	299	104	104
Cash Flow From Financing	1,028	(1,256)	(12,058)	(5,727)	(6,111)
Total Cash Generated	(1,381)	(613)	3,225	5,372	9,632
Free Cashflow To Equity	1,388	2,398	8,536	11,099	15,742
Free Cashflow To Firm	(1,902)	1,636	15,874	11,675	16,318

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,002	2,977	6,202	11,574	21,206
Total Debtors	10,537	12,431	13,439	14,969	15,917
Inventories	23,158	23,191	21,548	23,189	25,169
Total Other Current Assets	5,018	5,302	5,302	5,302	5,302
Total Current Assets	42,715	43,901	46,491	55,034	67,594
Fixed Assets	25,169	31,601	30,988	30,164	29,169
Total Investments	1,471	1,302	1,302	1,302	1,302
Intangible Assets	2,756	2,817	2,817	2,817	2,817
Total Other Non-Current Assets		41	240	271	308
Total Non-current Assets	29,395	35,760	35,347	34,553	33,595
Short-term Debt	7,332	8,466	1,719	1,719	1,719
Current Portion of Long-Term Debt					
Total Creditors	21,605	21,409	22,912	23,062	26,521
Other Current Liabilities					
Total Current Liabilities	28,937	29,875	24,631	24,781	28,240
Total Long-term Debt	2,803	3,424	3,424	3,424	3,424
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,803	3,424	3,424	3,424	3,424
Total Provisions	1,033	1,343	1,343	1,343	1,343
Total Liabilities	32,773	34,642	29,397	29,547	33,007
Shareholders Equity	39,270	44,941	52,362	59,963	68,104
Minority Interests	72	81	81	81	81
Total Equity	39,342	45,023	52,443	60,044	68,185

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	28.5%	20.6%	11.1%	8.1%	8.5%
Operating EBITDA Growth	12.0%	11.7%	36.5%	4.7%	6.4%
Operating EBITDA Margin	15.2%	14.1%	17.3%	16.7%	16.4%
Net Cash Per Share (Rs)	(6.31)	(9.18)	0.91	5.52	13.78
BVPS (Rs)	40.43	46.26	44.92	51.44	58.42
Gross Interest Cover	21.78	12.33	29.06	31.13	33.20
Effective Tax Rate	25.8%	26.0%	25.8%	25.8%	25.8%
Net Dividend Payout Ratio	42.3%	45.3%	44.4%	44.1%	43.9%
Accounts Receivables Days	43.19	39.66	40.22	40.85	40.94
Inventory Days	132.17	125.68	114.46	105.68	104.09
Accounts Payables Days	132.99	116.63	113.39	108.60	106.73
ROIC (%)	24.5%	22.7%	33.4%	33.4%	36.7%
ROCE (%)	24.8%	23.1%	30.0%	29.2%	27.6%
Return On Average Assets	12.5%	12.0%	15.7%	15.4%	14.8%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic revenue growth	28.6%	22.3%	10.7%	7.0%	7.8%
EBIDTA margins	15.2%	14.1%	17.3%	16.7%	16.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

REDUCE (no change)

Consensus ratings*:	Buy 11	Hold 3	Sell 6
Current price:	Rs320		
Target price:	Rs305 ▲		
Previous target:	Rs263		
Up/downside:	-4.7%		
InCred Research / Consensus:	-12.2%		
Reuters:	KANE.NS		
Bloomberg:	KNPL IN		
Market cap:	US\$3,106m	Rs258,964m	
Average daily turnover:	US\$1.6m	Rs136.9m	
Current shares o/s:	808.4m		
Free float:	25.0%		

*Source: Bloomberg

Key changes in this note

- Raise the target price to Rs305 from Rs263 earlier.
- Introduced FY26F estimates.

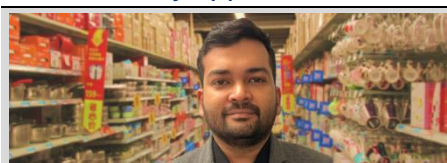


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.4	(1.1)	11.0
Relative (%)	(2.9)	(2.7)	4.8

Major shareholders	% held
Promoter & Promoter Group	75.0
LIC	3.5
ICICI Prudential Life Insurance	1.3

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Kansai Nerolac Paints Limited

Sailing against the tide

- 2QFY24 consolidated/standalone net sales grew by 1.3%/1.7% yoy to Rs19.5bn/Rs18.4bn, respectively. Volume declined during the quarter.
- Given the efforts made to premiumize its industrial range, the EBITDA margin guidance for the segment in low double digits for FY24F is underwhelming.
- While KNPL is taking the right steps, timing is not on its side due to the evolving competitive landscape. Retain REDUCE rating on it with a higher TP of Rs305.

Decorative paints volume declines; industrial segment drives growth

Kansai Nerolac Paints' (KNPL) 2QFY24 consolidated/standalone net sales grew by 1.3%/1.7% yoy to Rs19.5bn/Rs18.4bn, respectively. The demand from rural markets was weak while urban markets were steady. KNPL stated that there was visible stress in Kerala, where the demand has been muted but as its salience in this market is lower, it wasn't impacted in a strong manner. Volume (excluding putty sales) were flat (negative including putty). The share of new businesses (including waterproofing and construction chemicals) touched 10%. Incrementally, in the industrial business, KNPL believes that performance coating is emerging as a big area where it is focusing on sourcing premium profitable contracts (like the bullet train project). Growth during the quarter was largely led by projects business (7% of decorative business) and the industrial segment, which registered growth in its passenger vehicle and commercial vehicle sub-segments while two-wheelers and tractor sub-segments posted a decline. Within performance coatings, both liquids and powders are likely to post a better growth going ahead. In the decorative paints segment, the incremental focus is on 1) driving painting services (witnessing higher conversion), 2) increasing the engagement with influencers, and 3) driving premiumization (Paint Plus range). However, with the competitive intensity higher than it was ever before, we believe it will be a tall task for KNPL to regain lost market share in the decorative paints segment.

Margin improvement likely led by moderation of input costs

In 2QFY24, KNPL's consolidated gross margin expanded by 680bp yoy (up 30bp qoq) to 35.6%. However, the EBITDA margin, on a sequential basis, declined by 140bp to 14%. The industrial segment EBITDA margin remained in high single digits. We find the EBITDA margin outlook in low double digits (10-11%) for the industrial segment to be underwhelming given 1) the efforts made to premiumize offerings, and 2) cutting down low-margin products, with a higher focus on innovation. We expect KNPL to operate in a lower EBITDA margin band for a sustained period.

Regaining market share is a tall task; maintain REDUCE rating

Our concerns over KNPL regaining its market share in the decorative paints segment and operating in a lower margin band for a prolonged period make us retain our REDUCE rating on the stock with a new target price of Rs305 (30x Sep 2025F EPS), from Rs263 earlier. Upside risks: Market share gain in the decorative paints segment and/or a sharp decline in crude oil prices.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	63,694	75,427	79,610	85,340	92,014
Operating EBITDA (Rsm)	6,494	8,180	11,159	11,434	11,956
Net Profit (Rsm)	3,432	4,685	2,096	7,587	7,981
Core EPS (Rs)	6.4	8.7	8.3	14.1	14.8
Core EPS Growth	(34.7%)	36.5%	(4.8%)	70.1%	5.2%
FD Core P/E (x)	50.31	36.85	38.71	22.75	21.63
DPS (Rs)	4.0	4.7	5.6	6.6	7.8
Dividend Yield	1.87%	2.21%	2.61%	3.08%	3.63%
EV/EBITDA (x)	26.62	20.72	15.47	15.10	14.44
P/FCFE (x)	63.98	230.06	0.00	0.00	0.00
Net Gearing	0.1%	(7.4%)	0.0%	0.0%	0.0%
P/BV (x)	4.18	3.81	3.23	3.10	3.01
ROE	8.4%	10.8%	9.0%	13.9%	14.1%
% Change In Core EPS Estimates			16.71%	13.94%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sailing against the tide

Figure 12: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	Gr (%)
Revenue	19,310	21,568	19,565	1.3	-9.3	39,823	41,133	3.3
Expenditure	17,316	18,253	16,833	-2.8	-7.8	35,279	35,086	-0.5
Consumption of RM	13,744	13,961	12,600	-8.3	-9.7	28,123	26,561	-5.6
as % of Sales	71.2%	64.7%	64.4%			70.6%	64.6%	
Employee Costs	940	1,072	1,085	15.5	1.2	1,824	2,157	18.3
as % of Sales	4.9%	5.0%	5.5%			4.6%	5.2%	
Other Expenditure	2,632	3,220	3,148	19.6	-2.3	5,332	6,368	19.4
as % of Sales	13.6%	14.9%	16.1%			13.4%	15.5%	
EBITDA	1,994	3,315	2,732	37.1	-17.6	4,544	6,047	33.1
Depreciation	451	467	474	5.0	1.5	883	941	6.6
EBIT	1,542	2,848	2,259	46.5	-20.7	3,661	5,107	39.5
Other Income	41	172	220	441.0	28.0	89	392	340.7
Interest	63	71	76			148	147	
PBT	1,520	2,949	2,403	58.1	-18.5	3,602	5,352	48.6
Total Tax	408	898	648	58.9	-27.9	970	1,546	59.5
Adjusted PAT	1,112	2,051	1,755	57.8	-14.4	2,633	3,805	44.5
Minority Interest	-24	-40	-17			-66	-57	
APAT after MI	1,136	2,091	1,772	56.0	-15.3	2,699	3,862	43.1
Extraordinary Items	0	-5,290	0	-	-	0	-5,290	
Reported PAT	1,136	7,381	1,772	56.0	-76.0	2,699	9,152	239.1
Adjusted EPS	2.1	3.8	3.3	57.8	-14.4	3.9	4.0	2.2
Margins (%)	2QFY23	1QFY24	2QFY24	YoY (bp)	QoQ (bp)	1HFY23	1HFY24	(bp)
Gross Margin	28.8%	35.3%	35.6%	680	30	29.4%	35.4%	600
EBITDA	10.3%	15.4%	14.0%	360	-140	11.4%	14.7%	330
EBIT	8.0%	13.2%	11.5%	360	-170	9.2%	12.4%	320
EBT	7.9%	13.7%	12.3%	440	-140	9.0%	13.0%	400
PAT	5.8%	9.5%	9.0%	320	-50	6.6%	9.3%	260
Effective Tax Rate	26.8%	30.5%	27.0%	10	-350	26.9%	28.9%	200

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Our revised earnings estimates

Y/E Mar (Rs.m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Revenues	82,715	79,610	(3.8)	89,073	85,340	(4.2)	99,468
EBITDA	10,382	11,159	7.5	10,902	11,434	4.9	12,534
EBITDA Margin (%)	12.6%	14.0%	150 bp	12.2%	13.4%	120 bp	12.6%
APAT	6,329	7,386	16.7	6,659	7,587	13.9	8,423
EPS	7.8	9.1	16.7	8.2	9.4	13.9	10.4

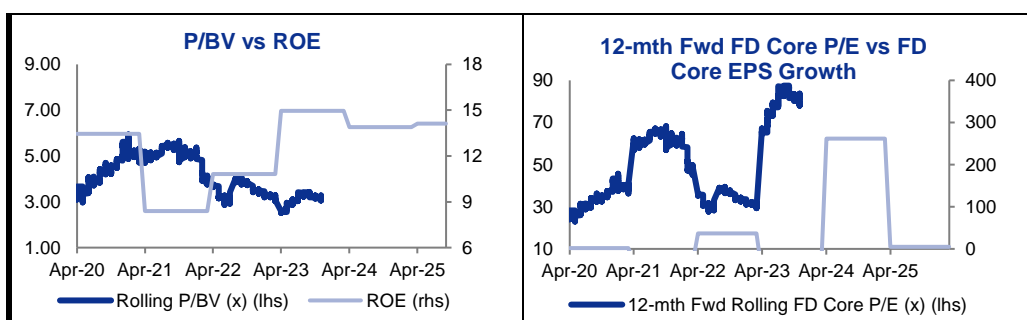
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: KNPL's one-year forward P/E trades between its 10-year average and -1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	63,694	75,427	79,610	85,340	92,014
Gross Profit	19,421	22,785	28,280	29,966	31,936
Operating EBITDA	6,494	8,180	11,159	11,434	11,956
Depreciation And Amortisation	(1,698)	(1,801)	(1,918)	(2,000)	(2,075)
Operating EBIT	4,796	6,379	9,241	9,435	9,882
Financial Income/(Expense)	(32)	(30)	741	817	901
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	4,764	6,349	9,982	10,252	10,783
Exceptional Items			(5,290)		
Pre-tax Profit	4,764	6,349	4,692	10,252	10,783
Taxation	(1,333)	(1,664)	(2,595)	(2,665)	(2,802)
Exceptional Income - post-tax					
Profit After Tax	3,432	4,685	2,096	7,587	7,981
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,432	4,685	2,096	7,587	7,981
Recurring Net Profit	3,432	4,685	4,460	7,587	7,981
Fully Diluted Recurring Net Profit	3,432	4,685	4,460	7,587	7,981

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	6,494	8,180	11,159	11,434	11,956
Cash Flow from Invt. & Assoc.	51				
Change In Working Capital	(4,912)	(706)			
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(286)	(290)	(257)	(257)	(257)
Tax Paid	(1,333)	(1,664)	(2,595)	(2,665)	(2,802)
Cashflow From Operations	14	5,520			
Capex	(2,715)	(1,804)	(1,600)	(1,350)	(1,350)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	4,585	(2,908)			
Other Investing Cashflow	254	260	998	1,074	1,158
Cash Flow From Investing	2,124	(4,453)	(602)	(276)	(192)
Debt Raised/(repaid)	560	(317)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,233)	(3,815)	(4,502)	(5,313)	(6,269)
Preferred Dividends					
Other Financing Cashflow	244	3,223	5,295	(60)	(136)
Cash Flow From Financing	(2,430)	(910)	792	(5,373)	(6,405)
Total Cash Generated	(291)	158			
Free Cashflow To Equity	2,698	750			
Free Cashflow To Firm	2,424	1,357			

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	3,155	6,250			
Total Debtors	10,933	12,379	11,036	11,816	12,702
Inventories	16,296	17,291	14,367	15,348	16,530
Total Other Current Assets	4,492	4,900	6,583	7,022	7,535
Total Current Assets	34,876	40,821			
Fixed Assets	22,010	22,013	21,695	21,045	20,321
Total Investments	11	32	32	32	32
Intangible Assets	198	198	198	198	198
Total Other Non-Current Assets					
Total Non-current Assets	22,218	22,243	21,925	21,275	20,551
Short-term Debt	2,157	1,824	1,824	1,824	1,824
Current Portion of Long-Term Debt					
Total Creditors	10,898	13,011	12,502	13,419	14,438
Other Current Liabilities					
Total Current Liabilities	13,054	14,834	14,326	15,243	16,262
Total Long-term Debt	1,031	1,047	1,047	1,047	1,047
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,031	1,047	1,047	1,047	1,047
Total Provisions	1,494	1,579	1,119	1,119	1,119
Total Liabilities	15,579	17,460	16,491	17,409	18,427
Shareholders Equity	41,322	45,337	53,516	55,730	57,306
Minority Interests	193	267	267	267	267
Total Equity	41,515	45,604	53,783	55,997	57,573

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	25.5%	18.4%	5.5%	7.2%	7.8%
Operating EBITDA Growth	(24.8%)	26.0%	36.4%	2.5%	4.6%
Operating EBITDA Margin	10.2%	10.8%	14.0%	13.4%	13.0%
Net Cash Per Share (Rs)	(0.06)	6.27			
BVPS (Rs)	76.68	84.13	99.31	103.41	106.34
Gross Interest Cover	16.78	22.00	35.91	36.67	38.40
Effective Tax Rate	28.0%	26.2%	55.3%	26.0%	26.0%
Net Dividend Payout Ratio	94.2%	81.4%	61.0%	70.0%	78.5%
Accounts Receivables Days	58.73	56.41	53.68	48.87	48.63
Inventory Days	116.55	116.44	112.56	97.93	96.84
Accounts Payables Days	88.20	82.88	90.71	85.43	84.62
ROIC (%)	11.1%	14.6%			
ROCE (%)	10.7%	13.4%	18.6%	17.4%	17.8%
Return On Average Assets	6.2%	7.8%			

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue growth (%)	25.5%	18.4%	5.5%	7.2%	7.8%
Gross margin (%)	30.5%	30.2%	35.5%	35.1%	34.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key highlights from the earnings calls in 2QFY24

Asian Paints ➤

- The decorative paints segment reported a revenue growth of 0.5% (volume growth of 6%) yoy. The industrial segment led domestic revenue growth.
- Urban markets have continued to perform better than rural markets. The economy range performed better than the premium/luxury range, which posted better growth in Sep 2023. The waterproofing segment has continued to do well.
- Projects business continued to perform well led by strong demand from the government and real estate sector.
- Management expects better growth this festive season as Diwali is delayed this year, driving better growth in 2HFY24F, as paint players will get c.40 days to sell their products after the monsoon season.
- Capacity expansion is under way and the company has already invested Rs15bn in brownfield expansions.
- Kitchen and bath business declined by 18%/20%, respectively, on a high base. Weatherseal doubled its revenue on a yoy basis while white teak grew 8.5% yoy.
- International business reported a revenue decline of 3.9% yoy but constant currency or CC growth stood at 1.9% yoy.
- The Middle East region and Sri Lanka reported healthy revenue growth, but Nepal and Bangladesh reported muted growth.
- Raw material deflation continued in 2QFY24, resulting in a strong improvement in gross and EBITDA margins on a yoy basis.
- Industrial paints are expected to continue to grow led by healthy demand from the government and real estate sector.
- Management remains cautious about growth in South Asia and Egypt markets. and maintains a cautious stance on crude oil prices considering the current geopolitical environment.

Berger Paints ➤

- Moderate topline growth of 2.8% registered during the quarter. Volume grew 10.9% yoy. Extended monsoons impacted the offtake of exterior and interior premium emulsions, putties, enamels etc. The economy segment performed better.
- Kerala market was muted during the quarter.
- Market share touched 20% in 1HFY24 vs. 19.3% in FY23, primarily led by 1) distribution expansion, 2) construction chemicals, which are growing faster, now at a significant scale, and 3) innovations launched in the last few quarters.
- Decorative paints: Though muted, the performance was better than industry average, as per management. The lower growth was on account of extended/sporadic monsoons and extended festive season along with a high base. Towards the end of the quarter, growth improved. Construction chemicals and the waterproofing range performed well.
- Added 2,000+ retail touchpoints and installed 1,700+ new tinting machines.
- Express painting service saw encouraging growth. It is being extended to upcountry markets. Expected to deliver positive results in the near term.
- Industrial paints: Protective coatings continued their growth momentum. Automotive and general industrial business saw double-digit growth, despite a high base, led by growth in the commercial vehicle and two-wheeler industry. The powder coatings business showed a turnaround, led by double-digit topline growth, aided by an uptick in the fan industry and new customer acquisitions.

- **Subsidiaries:** Bolix SA saw another strong quarter, with both sales and profitability growth driven by the UK business. Expected to do well in 3QFY24F (similar margins as in 2Q). BJN Nepal continued to decline following the slowdown in the construction sector. Recorded modest profitability growth led by lower raw material prices. Will remain marginally negative in 3QFY24F. STP grew in double digits. Operating margin expansion was led by an improvement in gross margin due to softer raw material prices and improvement in mix. Expecting double-digit value growth to continue in 3QFY24F. SBL Specialty Coatings saw a strong double-digit topline growth and robust profitability growth aided by better realization. Expected to grow in double digits in 3QFY24F. Berger Becker Coatings declined in both revenue and profitability terms, led by capacity limitation due to a fire-related incident at one of its facilities in 4QFY23. Berger Nippon Paint Automotive Coatings saw another quarter of robust topline growth and profitability led by an uptick in the PV and SUV segments. Expecting the growth to continue in 3QFY24F. Indian subsidiaries are likely to continue their growth. STP will also see a healthy growth (more profitable range). Nepal market is expected to remain muted.
- **Outlook:** The decorative segment is likely to see better demand in 3QFY24F led by improvement in rural markets and the festive season. The automotive business is expected to grow in double digits in 3Q. Protective coatings are expected to do well on account of high government spending on infrastructure. General industrial and powder coatings to clock a double-digit growth in 3Q. Maintains double-digit growth outlook for 3Q (overall), with the profitability expected to sustain on account of moderation of input costs. The volume-value gap is likely to shrink in 3QFY24F as the luxury range sells better in 3Q and 4Q. Also, given that enamel bases aren't strong in 3Q/4Q, they should aid in driving value growth rate higher even as the volume growth will be lower.

Kansai Nerolac Paints >

- **Demand:** Ex-putty growth was flat (negative incl. putty). Rural markets were weaker while urban markets posted better growth. In markets where the monsoons were normal, demand has been healthy. Saliency in South India is lower for Kansai Nerolac Paints or KNPL, which typically picks up by the end of Nov-Dec and should aid industry growth.
- Recent launches aided in improving the mix in the premium range, which aided in maintaining the ASP in 2QFY24. Paint+ range saliency improved during the quarter. Introduced a new range of products with superior sheen. Sheen was extended to the economy range as well. Extended the waterproofing range as well, with the addition of Perma Crystal Seal.
- NP range did well (10% of sales; paints+ saliency improving). Projects business and new business' (7% of decorative business) registered healthy growth.
- Rebating intensity has been stepped up and remains elevated, as per management.
- **Industrial segment: PV:** Grew in single digits, driven by the SUV segment and new models. Production in the industry grew 6%, which is expected to remain at a similar level. **Two-wheelers:** Declined in 2Q as production growth was flat. Two-wheelers should see better demand from the rural markets going forward.
- **Commercial vehicles or CVs:** Continued their positive momentum led by the M&HCV segment. **Tractors** were stressed, with the decline continuing. **Auto refinish:** Seam fillers, underbodies, etc. saw improved traction. The focus remains on adding 'A' class body shops. Also launched a waterborne range under NextGen for automotive body shops. **Performance coatings:** Received the approval for fusion-bonded epoxy powder. Growth will be better in powder coatings going ahead. Started supplying liquid coatings for Vande Bharat rail coaches and steel structures for the bullet train corridor.
- **International: Nepal** saw a decline in 2Q due to liquidity crunch in the market. **Bangladesh** posted modest growth. The macroeconomic pressure is expected

to continue. **Sri Lanka:** Increase in value/volume sales led to market share gains. Launched water-based floor paints and the waterproof range (economy segment). **Nerofix:** declined in 2Q. The retail vertical witnessed healthy growth.

- **Outlook:** The extended festive season is expected to aid both decorative and industrial businesses. Market growth is expected to be better in 2HFY24F. Management believes it is possible to post double-digit growth in 3QFY24F. To achieve high single to double-digit growth, the decorative segment's growth will have to pick up (negative in 2Q).

Pidilite Industries ►

- Rural markets grew faster than urban markets. Tile adhesives, Araldite and other innovative ranges have been doing well in rural/semi-urban markets.
- Price corrections were taken to the tune of 3% in 1HFY24 (cut by 5% in 2Q). The volume-value gap will take at least two quarters to get bridged, as per management.
- Pidilite Industries commissioned four new plants (four commissioned in 1Q) in 2Q (12 plants commissioned over the last 12 months).
- Distribution expansion continued across urban and rural markets. 'Pidilite ki Dunia' stores (supply via distributors & a two-member demand generation team in each region) expanded to 12k outlets.
- A new regional distribution centre was opened in Hyderabad to improve the supply chain.
- Overseas demand remains challenging. Domestic demand is healthy. Growth was secular across regions/categories. Over the last three-to-four years, Pidilite Industries invested in rural/semi-urban business expansion, which is aiding growth now.
- The core-to-pioneer mix at 75:25 (four-to-five years ago) is now moving towards 60:40. For example, Araldite has grown 20% in volume terms consistently since its acquisition. The core business is still growing ahead of India's GDP growth, as per management.
- **Waterproofing business:** Competitive intensity is now higher. But as the usage was lower earlier, the market is growing in a strong manner. Two of the paint industry players are making headway in the repainting and renovation segment, while Pidilite Industries is stronger in new construction.
- **Projects business:** The industry is growing at 10-12% in volume terms aided by large infrastructure projects, housing and repairs/renovation. Some notable projects: Samsung factory in Noida, Ikea factory, etc. were waterproofed with the Pidilite Industries' range of products.
- **Araldite:** Pre-acquisition, the volume was growing 6-8%. Since the acquisition by Pidilite Industries, the volume has been growing above 20%, much ahead of management estimates.
- **Subsidiaries:** Domestic subsidiaries performed well. International subsidiaries, barring the one in USA (being wound down), reported robust growth.
- **Input costs:** VAM prices stood at US\$1,000/t in 2QFY24 vs. US\$2,500/t in 2QFY23. Spot prices (US\$950/t) are inching up slightly.
- **Outlook:** Management is optimistic about growth. Input prices remain benign. Festive outlook is healthy. The focus remains on driving the volume higher over protecting margins. Over the medium term, management expects to grow the volume in double digits, with value growing slightly higher. In the next three-to-six months, we believe value growth will start coming back.

Akzo Nobel (Unrated) ➤

- Growth was largely driven by B2B, coatings and industrial businesses.
- The paint business is now close to negative working capital, as per management.
- NPDP's share stood at 10%-11%, launched in the last three-to-five months.
- Some price cuts were taken as Dulux was priced higher than its peers. Net of putty, volume growth was in high single digits.
- In Jun-Jul 2023, the outlook was healthy but due to erratic rainfall, there was softness in demand in Sep 2023. In the eastern region (large market for Akzo Nobel) liquidity challenges in the channel also impacted growth.
- The premium segment performed well. The decorative paints segment was flat yoy.
- Projects business (20% of paints) grew in high single digits, driven by real estate market growth.
- Distribution expansion aided in driving faster growth in smaller towns compared to urban markets.
- Rural markets, on an aggregate basis, remained challenging. Akzo Nobel made distribution-led gains but may have lost some market share at the mass-end.
- **Portfolio gaps in decorative paints:** Under-indexed at the mass-end (c.5% market share) vs. the premium end where Akzo Nobel has a higher market share. Rather than taking price drops, Akzo Nobel is making some tweaks to drive growth.
- **Auto & specialty coatings:** The premium range grew in double digits. The mass-end range was flat.
- **Industrial coatings:** Coil coatings rebounded in a strong manner, led by healthy export orders. The packaging segment was impacted by muted demand.
- **Powder coatings:** Double-digit growth was recorded across architectural, I&C and GTC segments led by broad-based demand. The automotive segment saw modest growth on a high base.
- **Marine & protective coatings:** The marine segment's growth was driven by strong orders from the defence and global drystocking sectors. The protective coatings segment's growth was led by oil & gas and power sectors.
- **Portfolio gaps:** Will expand more at the mass-end of the powder coatings business.
- The paints business will do well in 3QFY24F, led by the festive season. If growth in 4QFY24F is back at 1.5x of India's GDP, management will be optimistic about growth. Competitive intensity to step up from 4QFY24F.
- A&P spending will be stepped up to 5% of sales.

Indigo Paints (Unrated) ➤

- Management aims to increase the gap between Indigo's growth rate vs. industry growth rate.
- Growth was faster in T1-2 cities compared to T3-4 cities and rural markets.
- The pace of expansion of tinting machines was healthy, leading to higher throughput per dealer, as per management.
- Apple Chemie is expected to see growth in the coming quarters. Sales teams have been expanded. A new TVC will be on air (from Nov 2023) for the construction chemicals business, with cricketer M.S. Dhoni as the brand ambassador. Indigo Paints is also building a team for building material counters. More traction is expected in the medium term.
- **Value (volume) growth:** Cement paints + putty posted a 47.9% value growth (50.6% volume growth), emulsions grew 15.4% (+20%), enamels + wood

coatings grew 3% (+5.4%) while primers + distempers + others grew 26.6% (+28.8%) yoy, respectively. Putty business has been doing well.

- **Kerala market:** Has shown muted growth in the last four-to-five months. Indigo Paints is more exposed to Kerala (25% salience) than other players, but other states are growing at a healthy rate, making up for the muted growth in Kerala.
- **Rural markets:** No stress visible for paints, as per management. Overall growth rate in rural markets is similar to urban markets. Management does not believe the company lost market share to local players.
- **Manufacturing:** The Pudukkottai plant (Tamil Nadu) commenced production of water-based paints from Sep 2023. Civil works have started on a new water-based plant having a 90,000kpa capacity in Jodhpur and a solvent-based plant having a 12,000kpa capacity in Jodhpur. They are expected to be commissioned in 18 months.
- **Outlook:** 3QFY24 started on a positive note, with Oct 2023 posting the fastest growth (in a month) in Indigo Paints' history, as per management. 3Q historically has been a better quarter for Indigo Paints, with 4Q being the best in a year.

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