

India

**Underweight** (no change)**Highlighted Companies****Pidilite Industries Limited****ADD, TP Rs3325, Rs3054 close**

Pidilite Industries has been posting consistent high single-digit volume growth (double-digit in rural markets) despite overall weakness in demand. Stable raw material prices and lack of a sizeable pan-India competitor provide further comfort.

**Asian Paints Limited****REDUCE, TP Rs2160, Rs2341 close**

Asian Paints has been losing market share amidst elevated competitive intensity. The uptick in B2B business should provide some impetus for growth; however, its core decorative paints business remains under pressure.

**Berger Paints India Limited****HOLD, TP Rs600, Rs593 close**

Berger Paints has been able to post better-than-industry growth, despite the stress visible for other players in the industry, led by expansion of adjacent categories and is expected to outperform Asian Paints in the medium term.

# Building Materials

## Mixed outlook; industry weakness persists

- Overall demand remains muted, with the retail segment remaining under pressure, while the B2B segment is expected to see an uptick on a low base.
- Competition from new entrants is likely to remain intense, exerting pressure on margins owing to higher rebates and a deterioration in the product mix.
- Retain our negative stance on paint majors until signs of a structural recovery. **ADD/HOLD** Pidilite/Berger Paints; **REDUCE** Asian Paints & Kansai Nerolac.

### Industry demand weakness persists; slight improvement is expected

The demand for decorative paints remains subdued. Our interactions with paint dealers indicate continued weakness, although a marginal improvement was noted among some retail dealers over the past three months. The project (B2B) segment is expected to perform relatively better due to a low base, affected by election-related disruptions. Early monsoon onset, particularly in South India and coastal regions, has likely impacted the offtake.

### Rebating intensity remains elevated after the entry of Birla Opus

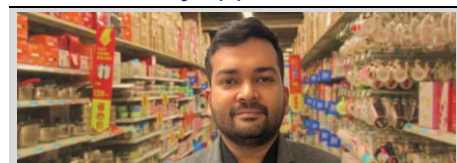
Rebating and promotional intensity remain elevated following Birla Opus's market entry. Birla Opus continues to offer aggressive schemes and rebates, particularly to contractors, leading to significant inroads with this segment and driving dealer demand for their brand. With Birla Opus achieving a near 50,000-dealer count, we anticipate continued market share gains as they prioritize aggressive growth targets of Rs40bn by FY26F and Rs100bn by FY28F. In response, Asian Paints or APNT has increased incentives for dealers and influencers and refreshed product packaging to counter the elevated competitive intensity.

### New entrants to up the ante while incumbents are on their toes

The paint industry is experiencing slower growth amidst intense competition, primarily from Birla Opus, which has achieved a 6.7% market share based on 4QFY25 exit sales. JSW Paints' acquisition of Akzo Nobel India's operations is not expected to have an immediate disruptive impact, as both these entities were already present in the market. However, post-consolidation, strategic realignments could exert further pressure on incumbents. The combined JSW Paints and Akzo Nobel India entity will hold approximately 8-9% market share (targeting 10% in the coming years), positioning the JSW Group as the No. 4 player.

### Maintain our negative stance on paint majors; ADD Pidilite Industries

We foresee a challenging operating environment for paint majors, with competitive pressure persisting as new entrants aggressively pursue ramping up their market share. We reiterate our **REDUCE** rating on Asian Paints and Kansai Nerolac Paints, and a **HOLD** rating on Berger Paints. Our preference remains for Pidilite Industries (**ADD**; TP: Rs3,325) due to its superior execution in rural markets and consistent high single-digit volume growth, which is expected to sustain despite the overall demand weakness, along with stable raw material prices, which provide margin comfort.

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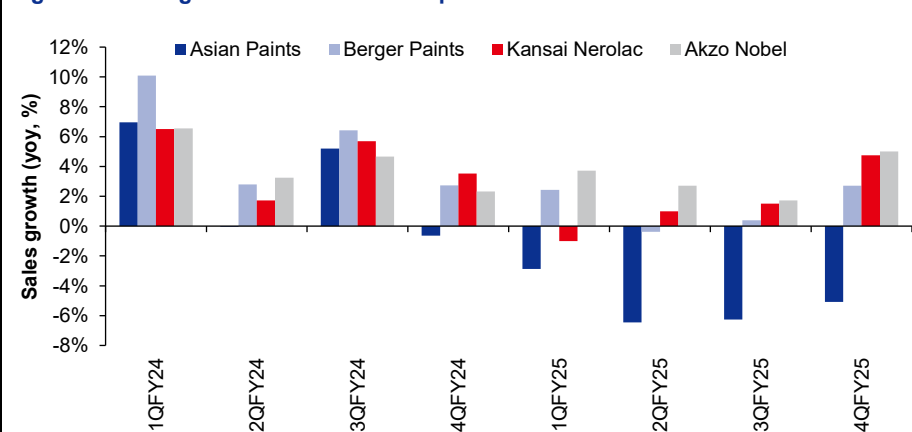
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**Figure 1: Sales growth momentum is expected to remain weak in the medium term**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Mixed outlook; industry weakness persists

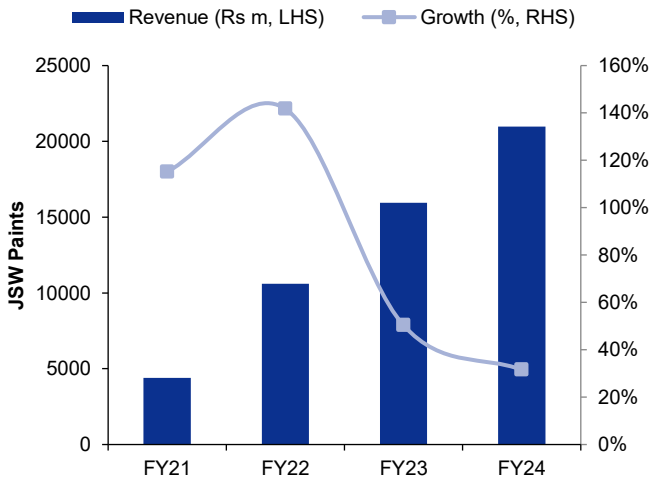
### Akzo Nobel & JSW Paints transaction summary

- **Acquisition Terms:** Akzo Nobel India's promoters (ICI and Akzo Nobel Coatings International BV) have agreed to divest their entire 74.8% stake to JSW Paints for Rs94bn, at a price of Rs2,762.5 per share.
- **Open Offer:** JSW Paints had announced an open offer for the remaining 25.2% stake at Rs3,417.8 per share, totalling Rs39bn. This open offer values Akzo Nobel India at Rs156bn (or 29.9x FY25F EPS).
- **Financial Performance:** Akzo Nobel India reported Rs41bn in sales and a PAT of Rs4.3bn. In comparison, JSW Paints recorded Rs21bn in FY24 sales and EBITDA of Rs638m, with the EBITDA margin at 3.04%.
- **Recent Divestiture:** In Feb 2025, Akzo Nobel India sold its powder coatings & R&D businesses (combined FY24 sales at Rs4.7bn) to its parent entity, Akzo Nobel NV, for Rs21.4bn.
- **Potential Restructuring:** JSW Paints may explore two primary restructuring scenarios post-acquisition - either delist Akzo Nobel India or implement a reverse merger of the unlisted JSW Paints with the listed Akzo Nobel India.

### Why this is a good move for JSW Paints

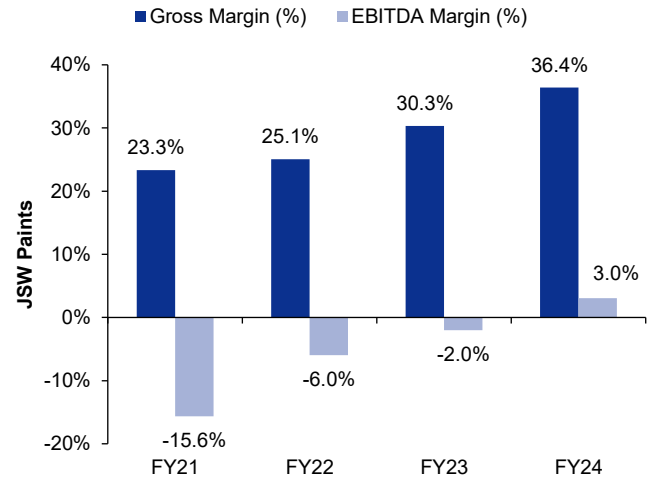
- Since its launch in 2019, JSW Paints has not made a significant splash in the market, unlike what Birla Opus did.
- Dulux is a well-known brand at the premium end (c.16% market share at premium end).
- **Good portfolio upgrade for JSW with minimal portfolio overlaps:** In terms of portfolios JSW & Akzo India do not have too much overlap and it is overall a portfolio improvement for the JSW group. Akzo Nobel is strong in automotive coatings, which can complement JSW's industrial business (c.8% of its sales), which largely gets consumed towards the group's steel industry operations. The Jindal Group also is the JV partner of MG Motors in India and post-acquisition, with a strong automotive coating range, this could be a new account added to its industrial business.
- **Dealer network:** JSW Paints will add Akzo India's reach of 24-25k dealers to its own network of c.7-8k dealers.
- **Differences:** JSW does not offer volume-based scheme targets to its dealers as per our channel checks, however Akzo India follows a similar structure to the rest of the industry, where dealers get volume-based targets. JSW's brands also have offers like 'All colours - Same price', which Akzo's range does not have.
- **Impact on the industry:** The paint industry has been reeling from impact of a slowdown in overall demand as well as significant competitive intensity, post the entry of the Birla Group with Birla Opus. As per exit 4QFY25 basis, Opus was already at a 6.7% market share. With this deal JSW group catapults from low single digits to c.8-9% market share (Akzo India has a c.7% overall market share).
- **Our view:** We believe the paints space will get further heated up in the next 2-3 years, with both JSW & Opus spending Rs9bn/Rs10bn to gain a strong entry in the market. Currently all the noise is in decorative paints, which will gradually spread to B2B and Industrial segments as well.

Figure 2: JSW Paints clocked Rs21bn in sales in FY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The EBITDA margin turned positive for the first time in FY24



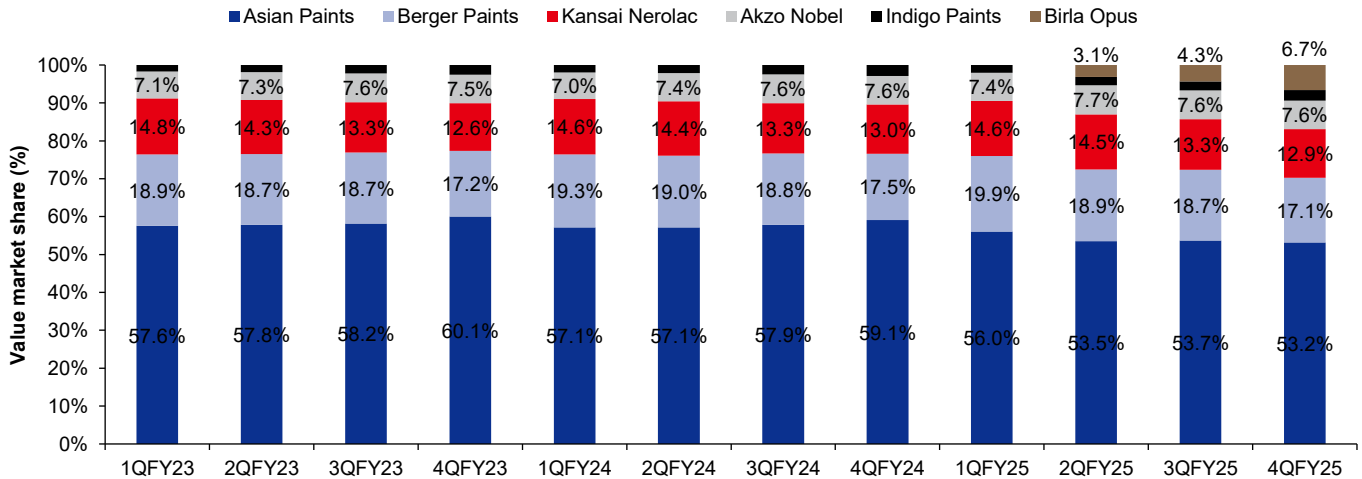
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Details of Akzo Nobel India's transaction with its parent entity in Feb 2025

Sale to parent via subsidiary	EV (Rs m)	FY24 Revenue (Rs m)	EV/Sales
Powder coatings	20,730	4,213	4.9
R&D	700	535	1.3
<b>Powder coatings + R&amp;D businesses</b>	<b>21,430</b>	<b>4,748</b>	<b>4.5</b>
Akzo Nobel India (consolidated)		39,616	
<b>Akzo Nobel India (ex-powder coatings &amp; R&amp;D businesses)</b>		<b>34,868</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Asian Paints' value market share slipped to 53.2% in 4QFY25 while Birla Opus clocked c.6.7% market share



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.