

28 August 2023

India | Equity research | Sector update

Consumer staples & discretionary

Likely M&A scenarios in paints; why M&As must be a priority for CEOs

As paint industry evolves from a 'somewhat rational competition' to a 'perfect competition' market, we expect accelerated industry consolidation (read M&As, divestitures by listed players and/or new entrants) over FY23-FY30. Drivers are: (1) market leaders' focus on protecting their market shares even at the cost of profitability, (2) high growth ambitions of new entrants and (3) survival for mid-sized players. That said, we also expect industry fragmentation to continue in the near to medium term – we forecast >10 players with market shares of 2%+ by FY26E vs just 4 in FY21. We expect all listed players (including Grasim) to be (potentially) active buyers to fill product, geography and technology gaps. We present in this report: (1) company-specific reasons why M&As can be EVA-positive (assuming right price paid), (2) historical perspectives on M&As in paint industry, and (3) some of the likely scenarios.

Paints – From 'rational competition' to 'perfect competition'...

With multiple players (Grasim, JSW, JK, Astral, Pidilite, etc.) entering the paint business, we believe the (somewhat) oligopolistic structure of paint industry will likely change to a perfect competition structure. It could eventually hurt the industry profit pool, in our opinion (as observed in FY22). While steep correction in commodity prices have resulted in higher margins in H2FY23 and FY24E, we believe pressure on industry profit pool is imminent. Incumbents will be forced to choose between market share vs margin and we expect the industry players to focus on retaining their respective market shares.

Consolidation is imminent

Considering the regional players (MRF Paints, Nippon Paints in South, and Sirca, Kamdhenu, Shalimar in North) as well as multiple large players, we believe there will be ~10 sizeable players (market shares >2% each) in next three years. Hence, consolidation is likely for: (1) gaining market share (via new geographies or differentiated products), and/or (2) expanding margins (via higher scale of operations, stronger brand equity or premiumisation).

Incumbents as well as new players likely to benefit from M&As

We believe M&As could help new players to secure competitive advantages such as brands, distribution and stronger connect with painters. Building these advantages organically may take longer time and capital. Acquisitions will allow incumbents to plug gaps in their offerings. E.g. Berger could benefit from acquisition of an industrial paint company or a premium paint company. Kansai could benefit from acquisition of a South-based paint company. Acquisition will help Indigo build higher scale of operations.

Recent M&A activities in paint industry

Astral has entered the paint industry via acquisition of Gem Paints in Karnataka and Indigo has strengthened its presence via acquisition of Hi-Build Coatings in South India and Apple Chemie in waterproofing segment. JK Cement has acquired Acro Paints in North India. Kansai and Berger have acquired Perma and STP respectively, to strengthen their waterproofing business. However, we note that the market leader Asian Paints has acquired companies in kitchen, bath and electrical segments as it changed its strategy from 'share of wall' to 'share of space'.

Sector and stock views

We advise investors to stay underweight in paint stocks. We believe the likely increase in competitive intensity may hurt industry profitability and cap valuation multiples. We have a **REDUCE** rating on Asian Paints, Berger, Akzo and Indigo Paints, and **ADD** on Kansai Nerolac.

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Asian Paints (REDUCE)

TP: INR 3,000

Berger Paints (REDUCE)

TP: INR 655

Kansai Nerolac (ADD)

TP: INR 360

Akzo Nobel (REDUCE)

TP: INR 2,650

Indigo Paints (REDUCE)

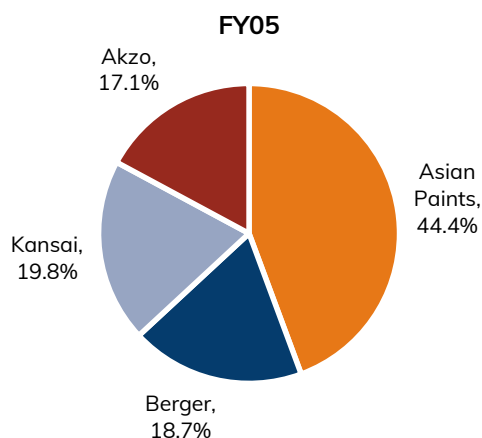
TP: INR 1,500

Paints: Now a multi-player industry

From somewhat of an oligopoly (four large players)...

The paint industry was dominated by four players for almost six decades. Asian Paints has remained market leader for more than two decades and has steadily expanded its market share to 57.9% in FY23 from 44.4% in FY05 (of organised paint industry). In the long-term, while Kansai and Akzo have lost market shares, Berger has gained. The unorganised paint sector accounts for 25-30% of the industry.

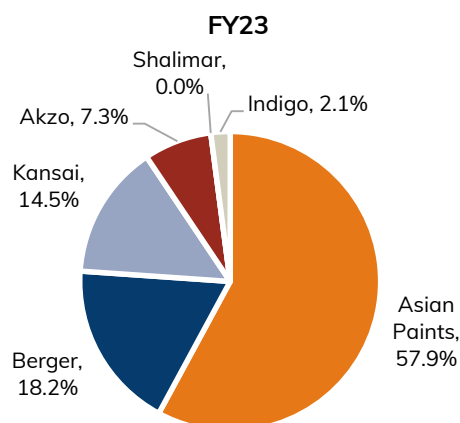
Exhibit 1: Four players dominated industry*...



Source: Company data, I-Sec research

*market shares based on sum of revenues of listed players

Exhibit 2: ...over past many decades



Source: Company data, I-Sec research

... to a perfect competition market (>10 players)

However, with entry of new players and business groups, the paint segment is likely to transform into a multi-player industry beyond FY23. Grasim, JSW Paints, JK Cement and Astral Poly are likely to be key mid/large players. We also note there are multiple smaller players such as Sirca, Shalimar, Kamdhenu, MRF Paints, and Nippon.

Exhibit 3: Status of new players entering paint industry

Company	Strategy / Comments	Key area of operations
Indigo Paints	Plans to focus on 750 tier 1 and 2 cities (ex-metros). Wants to focus on influencers to improve store productivity.	Kerala and Chhattisgarh are key regions; now wants to expand to 750 cities (ex 15 metros).
JSW	10% market share by CY25 and 20% market share by CY30 is the vision.	50%+ sales from industrial paints; Largely in west and south India.
Nippon Paints	Strong presence in Tamil Nadu. Also established presence in South India	Largely in South India.
Grasim	Wants to be no.2 player in paints in next 5 years; plans to invest INR 100bn in paints; Leverage <i>Birla White</i> brand and Cement/putty network (target capacity of 1,332mn KL p.a.).	In process to set up plants in six places; to launch paints in Q4FY24.
Shalimar Paints	Industrial paint company; likely beneficiary of PLI.	North India, largely in industrial paints.
Kamdhenu Paints	5-year vision introduced in FY20 – Wants to reach to INR 10bn in revenue by FY25E.	North India; only decorative paints – Focus on smaller cities / rural markets.
Sirca Paints	Focus on wood coatings in North India. Recently introduced decorative paints and wants to be aggressive in smaller towns/ rural markets in North India.	North India; wood coatings & decorative paints – focus on smaller cities / rural markets.
JK Cement	Acquired 60% stake in Acro Paints in H2FY23. It has been relaunched as JKMaxx Paints. Capacity of 60,000KL p.a. in decorative paints.	North India and South India.
Astral Poly	Acquired Gem Paints – Potential to grow at 15-20% p.a. for next 4 years (current capacity of 36,000 KL ; current utilisation is 25%)	Largely South India.
MRF Paints	Present in industrial coatings and wood coatings. Recently increased focus on decorative paints	South India
Pidilite	Present in waterproofing, distempers and wood coating. Entered decorative paints under <i>Haisha</i> brand.	Launched paints in Andhra Pradesh, Telangana and Odisha.

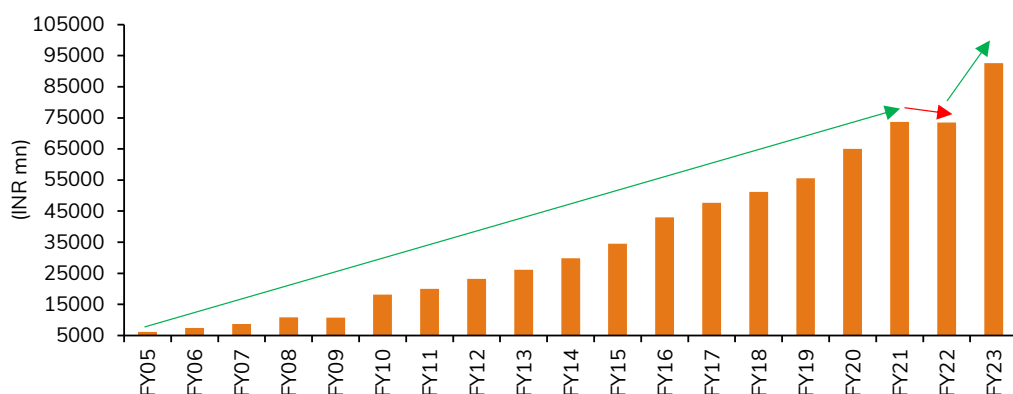
Source: Company data, I-Sec research

Industry profit pool may get impacted in near to medium term...

With multiple players entering the market, there will be margin pressure across players and industry profit pool is likely to shrink in coming years. It had already corrected in FY22. While the industry profit pool did recover in FY23 and is likely to move upwards in FY24E due to commodity deflation, we model the industry profit pool to remain under pressure in medium term. Asian Paints, market leader, has cut its EBITDA margin target range from ~23% earlier to 18-20% now (our interpretation). Berger has indicated maintaining its EBITDA margin in range of 16-18%.

We also note the profitability of some of the commodity+ products (e.g. putty) is already under stress now.

Exhibit 4: Decline in industry profit pool* in FY22, but recovery witnessed in FY23



Source: Company data, I-Sec research. *Sum of EBITDA of top five paint companies

... which could eventually lead to consolidation

With reduction in profit margins, business viability for many smaller / unorganised players will be under pressure. Also, some players may fear loss of market share leading to eventually lower valuation. Hence, we believe there will be 'willing sellers'.

The rationale behind consolidation will likely be: (1) adding new products; (2) gaining higher business scale (i.e. market shares); (3) improving additional capabilities like waterproofing, premium paints etc.; and (4) geographical expansion.

As the competitive intensity is likely to be high, the incumbents / new players may prefer to acquire new capabilities via the inorganic route.

Exhibit 5: Key reasons that may lead to consolidation

Reason	Likely solution via M&A, in our view
New products	Acquisition of a differentiated product company (Indigo) or premium paint (Akzo)
Strengthening Industrial paints	Acquisition of Akzo or Shalimar
Strengthening presence in South India	Acquisition of Indigo, MRF Paints, Nippon Paints
Strengthening presence in North India	Acquisition of Sirca, Kamdhenu

Source: Company data, I-Sec research

We believe there will be other scenarios too for likely consolidation:

- Aggressive strategy of market leaders (to gain market share even at cost of profitability) will likely eventually force smaller players to consolidate
- Grasim may focus on M&A activities if it is unable to gain market shares organically

'Market share vs margin' strategy may lead to consolidation

We note the market leaders are focussing on gaining market share even if it costs near term impact profitability. If the industry leaders continue to adopt this strategy for a period of next 3-4 years, it will likely result in loss of market share as well as erosion of margins for smaller players.

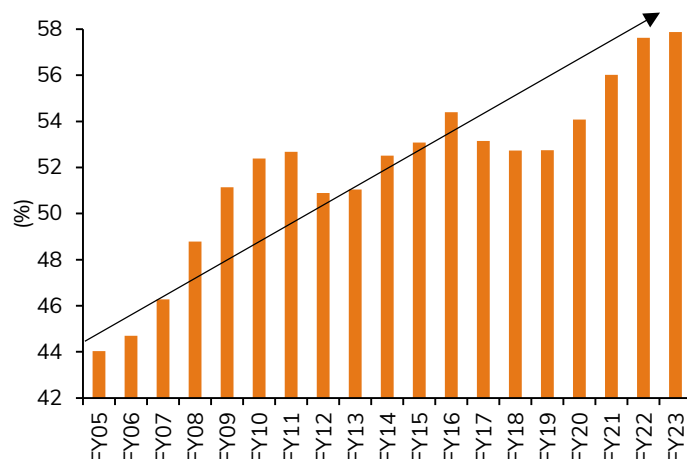
This will force them to think about business sustainability. Hence, it may lead them to sell out. We believe M&A activities in the paint sector will also depend on aggression / ambition of the market leaders.

Exhibit 6: Market leader behaving like a challenger

Initiative	Impact
Launch of Tractor Sparc	To gain market shares even in value-for-money paint segment
Higher schemes/ discounts	Strengthening positioning in trade
Entry in small segments like floor paints & wood coatings	Aggression to gain shares even in tiny segments
Expansion of distribution network	Distribution expansion even in small cities / rural markets

Source: Company data, I-Sec research

Exhibit 7: Asian Paints has gained market shares aggressively over past two decades



Source: Company data, I-Sec research

Likely M&A if Grasim's organic growth is lower than its expectations: Grasim plans to enter the paint industry with a budget of INR 100bn and an aggressive capex strategy. It plans to launch paints in Q4FY24. We believe it will likely be relatively easier for it to gain market share up to ~8% (considering the capex, relationships with real estate developers and established distribution of group companies such as Ultra Tech) in our view. However, we believe if Grasim is unable to reach higher market share (let's say ~15% share), it may turn to M&As. We believe it will have additional capital for M&As even after investing in capex, working capital and tinting machines.

Exhibit 8: Likely surplus with Grasim for acquisitions, as per our calculations

Investment activity	Particulars	INR mn
Allocation for paint segment		1,00,000
Less: Capex	6 plants including land	40,000
Less: Tinting machines	10,000 machines @ INR 150,000/machine	1,500
Less: Other investments	Working capital, Trade merchandise etc.	2,500
Surplus available for M&A		56,000

Source: Company data, I-Sec research

What will each paint company gain via M&A?

The new entrants such as Grasim will potentially benefit from acquisition of brands as well as distribution. If companies like Kansai and Akzo come together, they will likely benefit from higher scale of operations as well as stronger market share. Acquisition of larger players in industrial paints could allow Berger to strengthen its position in Industrial paints. Asian Paints has been steadily acquiring companies to access capabilities in kitchen, bath and electricals.

Exhibit 9: Benefit to paint companies via acquisitions

Company	Higher scale	Distribution expansion benefit in...				Benefit of access to ...		
		East	West	North	South	Ancillary products	Premium paints	Industrial paints
Asian Paints	Low	Low	Low	Low	Low	Low	Low	Moderate
Berger	Moderate	Low	Moderate	Low	Moderate	Low	Strong	Strong
Kansai	Strong	Strong	Moderate	Low	Strong	Strong	Moderate	Low
Akzo	Strong	Strong	Strong	Strong	Strong	Strong	Low	Low
Indigo	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Strong

Source: Company data, I-Sec research Key to read the table: Asian Paints may get low benefit of scale via acquisition OR Berger may benefit a lot due to acquisition of premium paints company etc.

Geographical presence of paint companies in India

While Asian Paints has strong presence pan-India, we note Berger is relatively stronger in North and East India. Kansai generates strong revenues from rural and semi urban markets and North India accounts for ~50% of its revenues. Akzo Nobel is strong in metros and urban markets. Smaller paint companies like Shalimar, Sirca and Kamdhenu are strong in Northern part of India. MRF and Nippon are strong in the South India.

Exhibit 10: Current geographical presence of paint companies in India in our view

Company	East	West	North	South	Metros
Asian Paints	Strong	Strong	Strong	Strong	Strong
Berger	Strong	Moderate	Strong	Moderate	Moderate
Kansai	Moderate	Strong	Strong	Moderate	Moderate
Akzo	Strong	Moderate	Moderate	Low*	Strong
Indigo	Moderate	Moderate	Moderate	Strong	Low
Shalimar	Low	Negligible	Moderate	Negligible	Negligible
Sirca	Low	Negligible	Moderate	Negligible	Negligible
Kamdhenu	Low	Negligible	Moderate	Negligible	Negligible
MRF Paints	Negligible	Negligible	Negligible	Moderate	Negligible
JSW Paints	Negligible	Low	Negligible	Moderate	Low
Nippon Paints	Negligible	Low	Negligible	Strong	Negligible
Gem Paints	Negligible	Negligible	Negligible	Low	Negligible

Source: Company data, I-Sec research *AP and Karnataka

Recent acquisitions in paint industry

Acquisition of Hi-Build Coatings by Indigo

Indigo and Hi-Build Coatings were two small paint companies operating in South India. After the acquisition of Hi-Build, Indigo (i.e. the consolidated entity) has been able to create a niche for itself and has developed strong presence in South India, especially Kerala (~28% of net sales). It now has a pan-India market share of ~2%.

Exhibit 11: Acquisition of Hi-Build Coatings by Indigo

Particulars	Expansion of capabilities of Indigo
Acquisition of plants	Kochi (Kerala) & Pudukkottai (TN)
Products	Emulsions and enamels
Distribution network	Strong reach in South India
Key regions added	Kerala
Acquisition of brands	HBC, Francoat, Enigma, Vibe
Expansion of management bandwidth	Access to key personnel from Hi-Build Coatings

Source: Company data, I-Sec research

Acquisition of Gem Paints by Astral

As a part of Astral's strategy to expand its product portfolio under building material segment, it acquired 51% controlling equity stake in the paint business of Gem Paints Private Limited, for a consideration of INR 1.94bn in Apr'22. It plans to acquire the remaining 49% stake over a period of 5 years in tranches.

With this acquisition, Astral will leverage Gem Paints' dealer network to further establish a foothold for Astral's pipe and adhesive products in southern India. Also, broadening of the product portfolio could enable Astral's current pan-India dealer network to be catered to in a more comprehensive manner.

Founded in 1980, Gem Paints is involved in manufacturing of high-performance industrial and decorative coatings. It has a manufacturing capacity of 36,000KL currently and there is potential to expand to 60,000KL at the existing site in Karnataka. Gem Paints is an established player in the southern market with over 3,000 dealer touchpoints and 10 depots spread across the region. It also has a product portfolio of 100+ SKUs and 28+ brands.

Exhibit 12: Financials of Gem Paints

INR mn	FY20	FY21	FY22
Sales	1,829	2,010	2,146
Adj. EBITDA	287	362	320
Adj EBITDA margin (%)	15.7%	18.0%	14.9%

Source: Company data, I-Sec research

Exhibit 13: Acquisition of Gem paints by Astral

Particulars	Acquisition of capabilities by Astral
Acquisition of plants	36,000KL with potential to expand to 60,000 KL
Products	Value-for-money emulsion and enamels
Distribution network	Acquired in South India
Key regions added	South India
Acquisition of brands	Gem

Source: Company data, I-Sec research

Acquisition of Acro Paints by JK Cement

JK Cement has acquired 60% stake in Acro Paints for INR 1.5bn and plans to acquire the remaining stake in next 12 months. Acro has plants in Bhiwadi and Alwar districts in northern India. Established in 1989, Acro enjoys good brand loyalty in its key region of North India. It has capacity of 60,000KL in decorative paints and 6,700KL in construction chemicals. It has 3,000 SKUs.

JK Cement plans to leverage its distribution of 100,000 dealers, 75,000 influencers and 1,500 distributors to sell paints.

Exhibit 14: Acquisition of Acro Paints by JK Cement

Particulars	Acquisition of capabilities by JK Cement
Acquisition of plants	Plant at Bhiwadi with 60,000 KL capacity
Products	3,000 SKUs in decorative paints and waterproofing
Distribution network	To merge distribution of Acro Paints with JK Cement
Key regions added	North India
Acquisition of brands	Acro

Source: Company data, I-Sec research

Acquisitions of ancillary product companies

We note paint companies such as Berger and Kansai have acquired companies in waterproofing / construction chemical segments in past few years. While the acquired companies were small and operating in limited geographies, Berger and Kansai have benefited from technology as well as product portfolio expansion.

Exhibit 15: Acquisition of Perma by Kansai

Particulars	Expansion of capabilities of Kansai
Acquisition of plants	Gujarat
Products	Waterproofing, Construction chemicals, adhesives
Distribution network	Negligible
Key regions added	Gujarat
Acquisition of brands	Perma
Expansion of management bandwidth	Negligible

Source: Company data, I-Sec research

Exhibit 16: Acquisition of STP by Berger

Particulars	Expansion of capabilities of Berger
Acquisition of plants	Goa, Ambattur, Hooghly, Kosi Kotwan, Jamshedpur, Panoli
Products	Waterproofing, construction chemicals
Distribution network	Negligible
Key regions added	Across India
Acquisition of brands	STP, Shalicyrl
Expansion of management bandwidth	Negligible

Source: Company data, I-Sec research

Acquisition of Apple Chemie by Indigo

Indigo has acquired 51% stake in Apple Chemie, construction chemical and waterproofing company in 2023. Acquisition of Apple Chemie will help Indigo expand portfolio of products and enter into adjacent categories of waterproofing and construction chemicals. Indigo can supply a higher range of products to retail outlets and its bargaining power with trade may expand. The acquisition also offers a chance to Indigo to expand business in B2B segments.

Exhibit 17: Acquisition of Apple Chemie by Indigo

Particulars	Expansion of capabilities of Indigo
Acquisition of plants	Maharashtra
Products	Waterproofing and construction chemicals
Distribution network	Access to some B2B customers
Key regions added	West India
Acquisition of brands	Apple Chemie
Expansion of management bandwidth	Access to key personnel from Apple Chemie

Source: Company data, I-Sec research

M&As at the global level

While there are not many M&As in the global paint industry, we note Akzo recently acquired Kansai's Africa business.

Kansai is present in 12 countries in Africa and generated revenues of EUR 280mn. It also has a strong established brand like Plascon, which is present in South Africa for more than 100 years. Acquisition of Kansai's Africa business may create a stronger platform for Akzo's growth.

Exhibit 18: Acquisition of Kansai's Africa business by Akzo

AkzoNobel to acquire all paints and coatings activities of Kansai Paint in Africa



- The intended acquisition will strengthen our leading business in the region, providing an excellent platform for future growth
- Intended acquisition is a great match in terms of portfolio, market expertise and values
- Plascon, together with our Dulux brand, are the longest-established paint brands in the region. Plascon has 100+ years of heritage in South Africa
- Kansai Paint is a frontrunner with its environmental, social, and governance (ESG) management in the region



Revenue

~€280 million

2,500
employees

 **12**
countries

 **19**
manufacturing sites

 **30**
warehouses

Source: Company data, I-Sec research

Likely M&A scenarios in India

While there are multiple feasible M&A scenarios, we focus on some. There will be other possibilities and we believe the change in industry structure, leader's strategy, and success of Grasim could eventually have an impact on consolidation (it is highly dynamic).

Match the following

We believe almost all the paint companies will likely benefit via M&As.

Exhibit 19: Match the following - Likely M&A scenarios in paint industry in India

[A] Companies which can acquire	Matching column A & B	[B] The target companies
A1.Asian Paints		B1.Berger
A2.Berger		B2.Kansai
A3.Kansai		B3.Akzo
A4.Akzo		B4.Indigo
A5.Indigo		B5.Sirca
A6.Grasim		B6.J K Cem
A7.JSW		B7.Shalimar
A8.Pidilite		B8.MRF
A9.Astral		

Source: Company data, I-Sec research

Analysing the benefits

We have assigned points for benefits from M&As.

- Acquisition of brand
- Expansion of distribution network
- Access to additional manufacturing units
- Scale benefits
- Acquisition of industrial paints

Exhibit 20: Total benefits via M&As

Company / Acquisition target	Berger	Kansai	Akzo	Indigo	Sirca	J K Cem	Shalimar	MRF Paints
Asian Paints	10	15	12	5	3	2	6	6
Berger	-	17	13	6	4	2	6	7
Kansai	18	-	13	8	5	2	6	7
Akzo	18	19	-	10	5	2	7	7
Indigo	20	23	18	-	5	2	8	9
Grasim	19	20	17	5	4	2	6	7
JSW	20	22	18	6	4	2	6	8
Pidilite	20	21	19	6	4	2	6	8
Astral	20	22	19	6	4	2	12	13

Source: Company data, I-Sec research. 1=Lowest, 50=Highest

Exhibit 21: Benefits due to acquisition of brand(s)

Company/ Acquisition target	Berger	Kansai	Akzo	Indigo	Sirca	J K Cem	Shalimar	MRF Paints
Asian Paints	2	3	1	1	1	0	1	1
Berger	-	3	1	1	1	0	1	1
Kansai	4	-	1	1	1	0	1	1
Akzo	4	3	-	2	1	0	1	1
Indigo	5	5	5	-	2	0	2	2
Grasim	5	3	5	2	1	0	0	1
JSW	5	4	5	2	1	0	0	1
Pidilite	5	3	5	2	1	0	0	1
Astral	5	4	5	2	1	0	3	4

Source: Company data, I-Sec research

Exhibit 22: Benefits due to distribution expansion

Company/ Acquisition target	Berger	Kansai	Akzo	Indigo	Sirca	JK Cem	Shalimar	MRF Paints
Asian Paints	1	1	1	1	0	0	0	0
Berger	-	4	2	1	1	0	0	1
Kansai	5	-	3	2	1	0	0	1
Akzo	5	5	-	3	1	0	1	1
Indigo	5	5	5	-	2	0	1	2
Grasim	5	4	2	1	1	0	1	1
JSW	5	4	2	1	1	0	1	2
Pidilite	5	4	2	1	1	0	1	2
Astral	5	4	2	1	1	0	4	4

Source: Company data, I-Sec research

Exhibit 23: Post-acquisition access to manufacturing units

Company/ Acquisition target	Berger	Kansai	Akzo	Indigo	Sirca	JK Cem	Shalimar	MRF Paints
Asian Paints	4	3	3	2	1	1	1	1
Berger	-	3	3	2	1	1	1	1
Kansai	4	-	3	2	2	1	1	1
Akzo	4	4	-	2	2	1	1	1
Indigo	4	3		-		1	1	1
Grasim	3	3	2	1	1	1	1	1
JSW	4	4	3	1	1	1	1	1
Pidilite	4	4	4	1	1	1	1	1
Astral	4	4	4	1	1	1	1	1

Source: Company data, I-Sec research

Exhibit 24: Scale benefits that could lead to margin expansion

Company/ Acquisition target	Berger	Kansai	Akzo	Indigo	Sirca	JK Cem	Shalimar	MRF Paints
Asian Paints	3	3	2	1	1	1	1	1
Berger	-	4	3	2	1	1	1	1
Kansai	4	-	3	3	1	1	1	1
Akzo	4	2	-	3	1	1	1	1
Indigo	5	5	3	-	1	1	1	1
Grasim	5	5	3	1	1	1	1	1
JSW	5	5	3	2	1	1	1	1
Pidilite	5	5	3	2	1	1	1	1
Astral	5	5	3	2	1	1	1	1

Source: Company data, I-Sec research

Exhibit 25: Acquisition of industrial paint capabilities

Company/ Acquisition target	Berger	Kansai	Akzo	Indigo	Sirca	JK Cem	Shalimar	MRF Paints
Asian Paints	1	5	5	0	0	0	3	3
Berger	-	3	4	0	0	0	3	3
Kansai	1	-	3	0	0	0	3	3
Akzo	1	5	-	0	0	0	3	3
Indigo	1	5	5	-	0	0	3	3
Grasim	1	5	5	0	0	0	3	3
JSW	1	5	5	0	0	0	3	3
Pidilite	1	5	5	0	0	0	3	3
Astral	1	5	5	0	0	0	3	3

Source: Company data, I-Sec research

Likely scenarios, in our view

While there are multiple permutations and combinations possible, we note some of the scenarios which may happen considering global events or higher scope of synergies. We believe there is possibility of many more different M&As too.

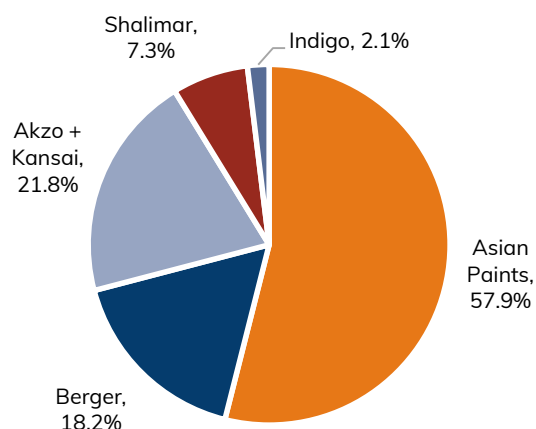
Akzo acquires Kansai's paint business in India

In line with the group's global strategy, Akzo may consolidate its India business by acquisition of Kansai's India business. We believe the consolidated entity will likely have a strong no.2 positioning in the paint market. It will also have strong presence in premium products and metros due to Akzo, besides a strong presence in North India, industrial paints and rural/semi-urban markets due to Kansai.

As both companies have lost market share over past decade (turned around recently under leadership of Anuj Jain at Kansai Nerolac and Rajiv Rajgopal at Akzo Nobel), we believe consolidation is critical for them.

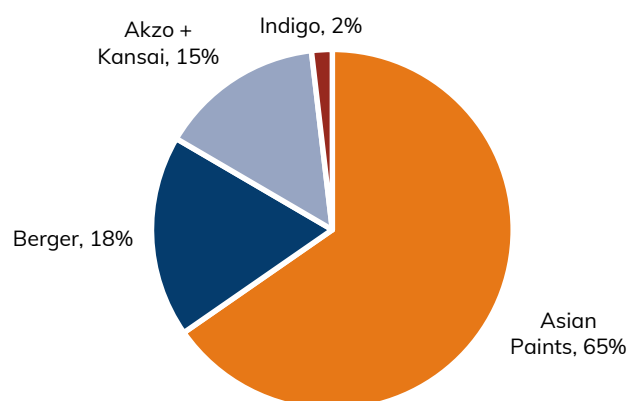
However, we assign a low probability to this event as India is key market for both Akzo and Kansai.

Exhibit 26: Akzo+Kansai to become no.2 player in revenues...



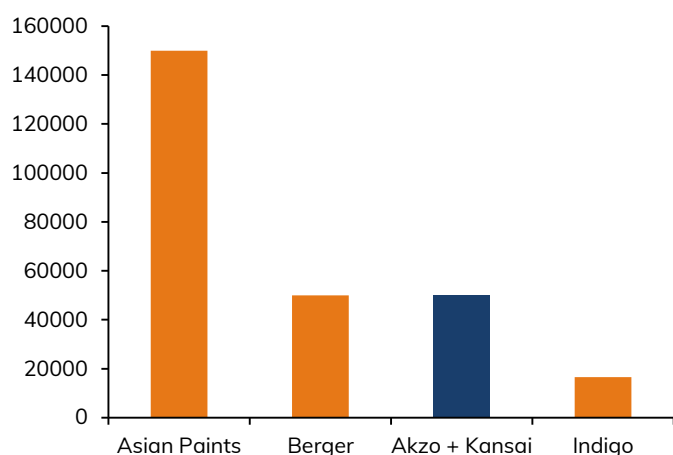
Source: Company data, I-Sec research

Exhibit 27: ... and strong no.3 in EBITDA



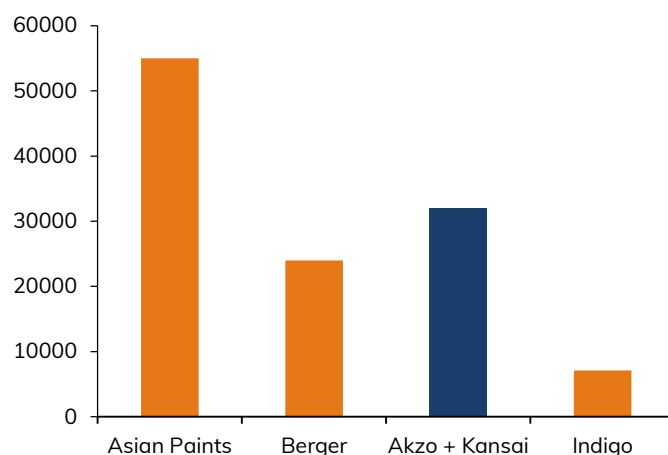
Source: Company data, I-Sec research

Exhibit 28: Distribution moat to expand...



Source: Company data, I-Sec research

Exhibit 29: ...along with tinting machines



Source: Company data, I-Sec research

Akzo as an acquisition target

We believe gaining market share in lower end of the market is relatively easier considering there are multiple smaller / unorganised players. The revenue share of unorganised players is 25-30%. However, it will be tougher to gain market share at the premium end. Premium paints are likely to outperform basic paints in the medium to long term and offer relatively better profit margins. Hence, many companies would be keen to acquire Akzo Nobel, in our opinion.

Exhibit 30: Hypothetical of Akzo by Grasim or JSW Paints

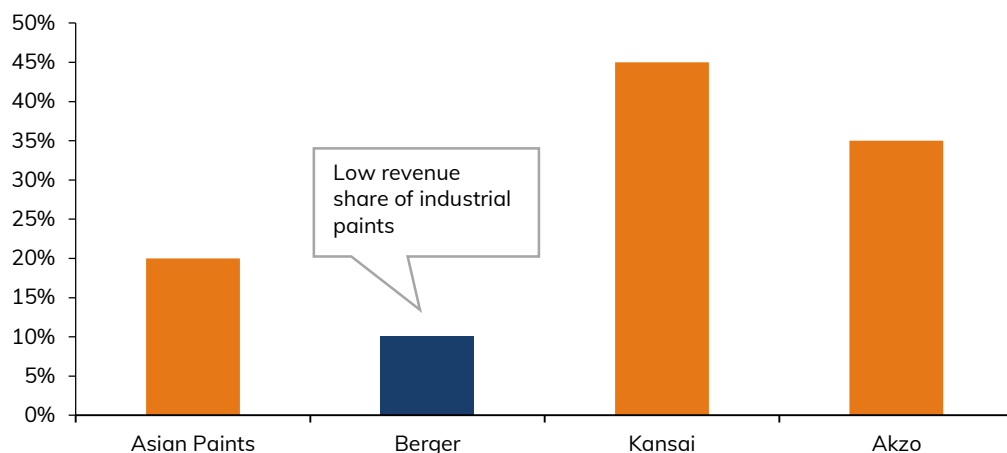
Particulars	Benefits
Brand	Dulux brand awareness > revenues. Strong scope to leverage brand image
Distribution network	20,000+ retail outlets and 10,000+ tinting machines
Strong premium portfolio	It is difficult to create premiumisation and develop differentiated products
Access to industrial paints	Connect with industrial customers and high-quality premium industrial paints

Source: Company data, I-Sec research

Acquisition of an industrial paint company by Berger

Berger has lower presence (~10% of revenues) in industrial paints vs some of its peers. While most new entrants are targeting decorative paints, we believe the competitive intensity in industrial paints is unlikely to change in the near term. Akzo, Kansai and Asian Paints generate ~35%, ~45% and ~20% of their revenues from industrial paints, respectively.

Exhibit 31: Berger may expand its industrial paints portfolio via acquisitions



Source: Company data, I-Sec research

Acquisition of paint companies operating in South India

We believe Asian Paints has high market share in South India (higher than its pan-India share). If Grasim or other new entrants desire a strong market presence in South India, M&As may be one option.

We note Indigo Paints, Nippon Paints and MRF Paints are among the (relatively) larger paint companies operating in South India.

Exhibit 32: Key paint companies operating in South India

Particulars (INR mn)	Indigo (FY23)	Nippon Paints (FY22)	MRF Paints (FY22)
Revenues	10,733	12,723	3,1812
Gross profit	4,781	8,031	1,826
EBITDA	1,680	-589	229
PAT	1,021	-516	146
Margins (%)			
Gross margin	44.5%	63.1%	57.4%
EBITDA margin	15.7%	-4.6%	7.2%
PAT margin	9.5%	-4.1%	4.6%

Source: Company data, I-Sec research

Grasim acquires smaller paint companies

In order to kick-start its paint business operations, or to benefit from existing brands or distribution, Grasim may acquire smaller paint companies.

Grasim's has commenced its B2B portal (www.birlapivot.com) as a one-stop shop for building materials such as cement, paints, tiles. Its paints section currently has strong presence of Shalimar paints. In our opinion, Shalimar can be a potential target for Grasim. We note that Shalimar has posted losses in eight out of past nine years.

Exhibit 33: Shalimar's financials

Particulars (INR mn)	CAGR (FY13-23, %)	Shalimar (FY23)
Revenues		4,860
EBITDA		(150)
PAT		(640)
Margins (%)		0.2%
EBITDA margin	P to L	(3.0)%
PAT margin	P to L	(7.4)%

Source: Company data, I-Sec research

We highlight that these are just some scenarios we discussed. There are many feasible permutations and combinations as the industry likely goes through a dynamic phase.

Valuation and risks

We value paint stocks by DCF methodology (WACC and TG ranging from 10-13% and 3-6% respectively). Key upside risk is: better than expected gross margins due to correction in input prices. Key downside risk: unexpected irrational competition due to deceleration in general consumption demand.

We have an **ADD** rating on Kansai, and **REDUCE** on Asian Paints, Berger, Akzo and Indigo.

Exhibit 34: Valuation summary

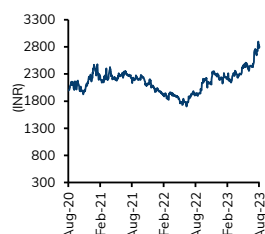
Company	CMP (INR)	TP (INR)	Upside (%)	Rating	PE (x)		EV/EBITDA (x)		ADTV (USD mn)	Market Cap	
					FY24E	FY25E	FY24E	FY25E		(INR bn)	(USD bn)
Akzo Nobel	2,765	2,650	(4)	REDUCE	29	27	19	17	0.6	126	1.5
Asian Paints	3,259	3,000	(8)	REDUCE	59	58	40	38	33.6	3,126	37.8
Berger Paints	704	655	(7)	REDUCE	59	53	36	33	6.7	684	8.3
Indigo Paints	1,515	1,500	(1)	REDUCE	51	44	33	28	1.9	72	0.9
Kansai Nerolac	322	360	11	ADD	39	35	24	21	1.8	261	3.2

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)		CAGR (FY23-FY25E) (%)		
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	Revenues	EBITDA	PAT
Akzo Nobel	2.9	2.6	9	8	24	22	31	32	30	32	11	16	19
Asian Paints	8.3	7.5	17	15	49	47	31	27	27	24	10	15	14
Berger Paints	5.8	5.1	13	11	46	41	24	23	20	19	12	18	22
Indigo Paints	5.5	4.7	8	7	38	31	16	16	18	18	19	23	27
Kansai Nerolac	3.1	2.7	5	4	30	27	13	13	13	12	11	20	27

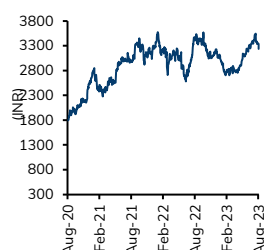
Source: Company data, I-Sec research

Price charts

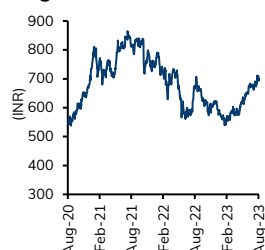
Akzo Nobel



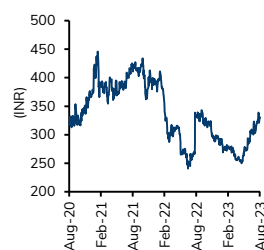
Asian Paints



Berger Paints



Kansai Nerolac



Indigo Paints



Source: Bloomberg

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