

# Consumer Goods

Refer to important disclosures at the end of this report

## Grasim's entry to heat up competition in paints

- Grasim Industries, an Aditya Birla Group company, has announced its foray into the Decorative Paints business. The company's ambition to become #2 player and initial capex outlay of Rs50bn (over next 3 years) suggest that the competition is likely to heat up, even as Paints is a tough category to crack.
- Grasim's cash generation and balance sheet capacity indicate reasonable ability to invest aggressively. Grasim plans to leverage its subsidiary Ultratech's putty distribution network of 54,000 outlets; 74% of them are also paint outlets.
- Paints has high entry barriers and new entrants have had very limited success over the years. Asian Paints dominates the sector (40%+ value share), thanks to its strong brand, distribution and execution. Also, 25% of category revenue are in the unorganized segment.
- Grasim's entry may provide impetus to volume growth over the medium-to-long term, but it is also likely to impact margins and profitability of incumbents. Post recent run-up in share prices, we believe that APNT/BRGR/PIDI are richly valued at 53x/73x/56x and may see some correction in the near term. We maintain Sell on BRGR and PIDI. We retain Hold on APNT but reduce Mar'22 TP by 9% to Rs2460, valuing it at 50x FY23E PER.

### Grasim plans big and serious entry into paints; to leverage Ultratech's putty reach:

Grasim has announced a serious entry into decorative paints with an ambition of becoming a No. 2 player. The company has announced an investment of Rs50bn over the next three years with an appetite for further investments in future. Management commentary indicated that a detailed business plan is already in place, which aims pan-India presence with expansion at an aggressive pace. It plans to leverage Ultratech's Birla Putty reach (arrangement would be at arm's length), given the product leadership in the putty market and reach to 54,000 outlets (2<sup>nd</sup> largest distribution), 74% of which are also paint outlets.

### Success not easy given high entry barriers; but rise in competitive spends is inevitable:

Even as paints is a low-tech product category and offers limited product/service differentiation, it has significant entry barriers on account of entrenched brands and distribution networks (latter cemented by deployment of tinting machines in retail outlets) and influence over trade/applicators through training and discount schemes as well as loyalty and incentive reward points. The paints market is dominated by top 3 players (~65% market share), which have a strong brand and execution and retail presence that is difficult to match but also has a large presence of unorganized/regional players as well (almost 1/4<sup>th</sup>). New players could not make a dent, including Nippon Paints and JSW, due to inability to scale up retail presence. While it may be difficult to displace the top 3 players, Grasim's foray cannot be overlooked. At the very least, it is likely to drive up sales & marketing spends across the industry, impacting margins of incumbent players over the medium-to-long term. We expect the competition may also spill over to adjacent categories of construction chemicals/waterproofing, impacting PIDI.

### Rich valuations to moderate in view of emerging competition:

Growth opportunity in Paints remains exciting, driven by favorable demographics, growing urbanization, trends toward rental housing, and premiumization in Tier-3 and rural areas. However, the entry of a well-capitalized entity with aggressive ambition is likely to increase competitive intensity and marketing/channel spends. It may also impact margins of incumbent players (earning 35-40% RoIC), thus emerging as a valuation overhang for paints stocks. Recent run-up in share prices of APNT/BRGR/PIDI has made their valuations expensive at 53x/73x/56x, which we believe should correct. We maintain Sell and UW stance BRGR and PIDI. We retain Hold on APNT, but trim our TP by 9% to Rs2460, applying a lower 50x PER multiple on our FY23E EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(Page 6\)](#)

Asian Paints		HOLD
CMP		Target Price
2,597		2,460

Berger Paints		SELL
CMP		Target Price
774		480

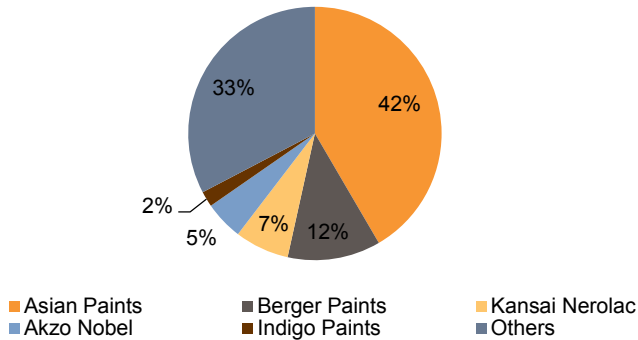
Pidilite		SELL
CMP		Target Price
1,735		1,260

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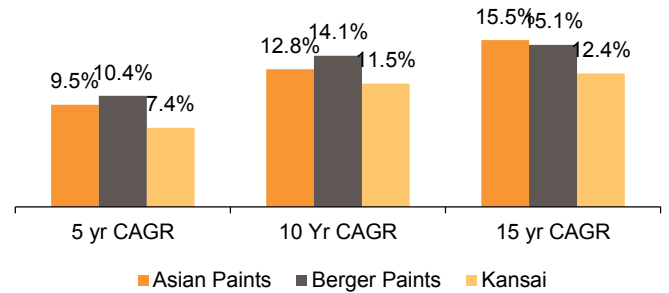
# Story in Charts

**Exhibit 1: Paints market split – top 3 players dominate the market**



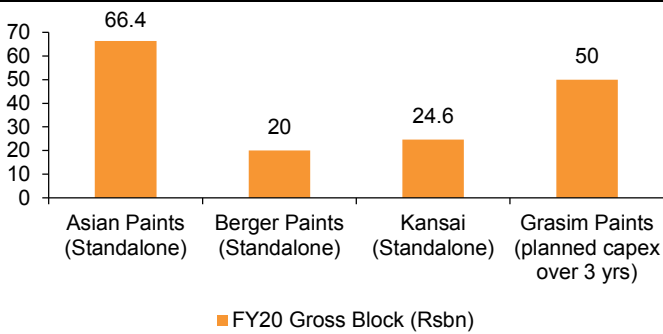
Source: Company, Emkay Research

**Exhibit 2: Sales growth trends, though have slowed down, remain very attractive vs. most other consumer categories**



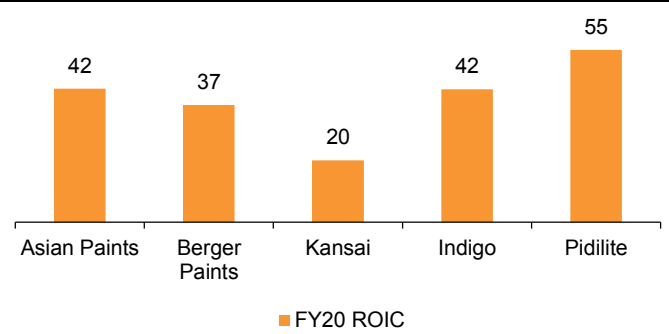
Source: Company, Emkay Research

**Exhibit 3: Grasim's capex plan appears significant compared to existing players investment so far**



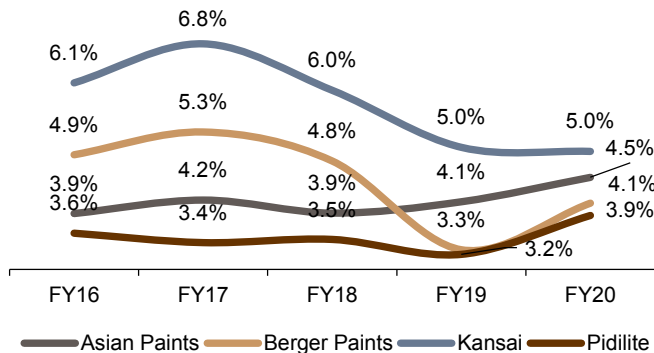
Source: Company, Emkay Research

**Exhibit 4: Sector has strong profitability driving high ROIC (%)**



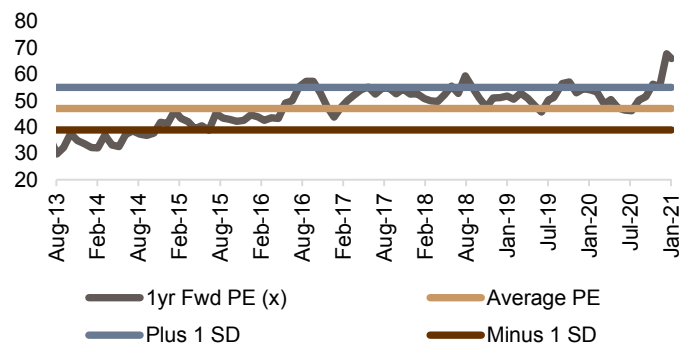
Source: Company, Emkay Research

**Exhibit 5: Ad spends across players have been moderate (As % of sales)**



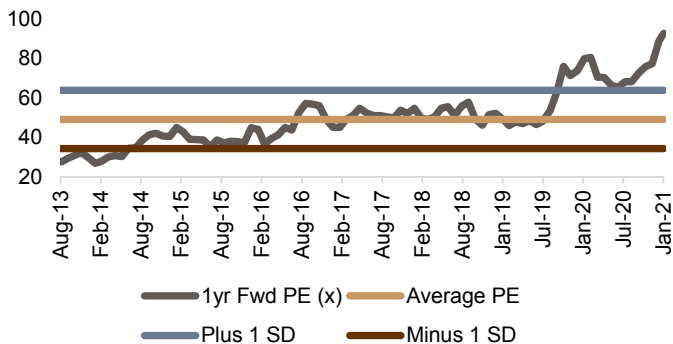
Source: Company, Emkay Research

**Exhibit 6: APNT P/E band**



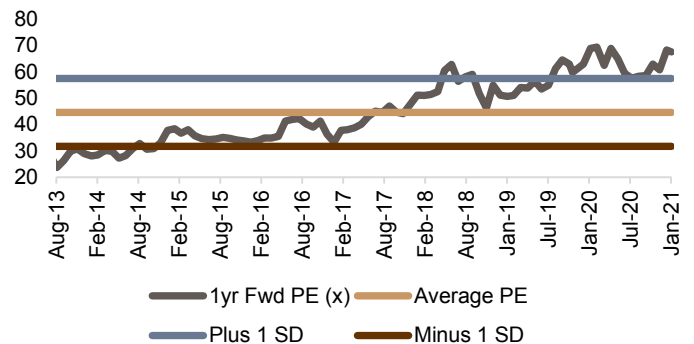
Source: Company, Emkay Research

**Exhibit 7: BRGR P/E band**



Source: Company, Emkay Research

**Exhibit 8: PIDI P/E band**



Source: Company, Emkay Research

## Grasim concall highlights

- Foray into paints is a strategic choice, which will provide scale and growth and change the profile of Grasim standalone. Focus will be on decorative paints which has a huge opportunity, with unorganized share still at 25%.
- Management strongly believe that they have all the ingredients for paints. The aim is to become a no.2 player over the years.
- The group has been studying this sector for long and would like to capture the value fast. Current focus is to get manufacturing in place.
- It has taken approval of Rs50bn initially for the business plan; this is overall fund requirement for 3 years, which may increase over time.
- Sale of the fertilizer business will bring in cash. Capex for the exiting business is getting over so cash flows will support the aggressive investment. Net/Debt to EBITDA will not cross 3x.
- It plans to use Ultratech on the arm's-length basis for synergies. Ultratech has two channels – 1) cement outlets where there is limited paint sale and 2) paint channel where you have undercoats as well, including putty. Grasim will be leveraging this channel for paints.
- Birla white and putty are distinct vs. cement and are largely sold through paint shops, and have connection with the dealers, painters and influencers. Besides sales team, it has a history of contact program with the paint applicators and influencers and also have a loyalty program.
- Birla white distribution is the second largest in the paint industry, a pan-India operator and present in 6,000 towns. Birla White is consistently expanding and growing its business; the focus of distribution has been on the paint industry.
- Grasim will invest in latest technology, and plans to use Birla brand equity to accelerate and leverage.

Exhibit 9: Relative valuations

	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Asian Paints</b>	<b>2,597</b>	<b>2,491</b>	<b>Hold</b>	<b>2,460</b>	<b>34.2</b>	<b>43.0</b>	<b>49.1</b>	<b>76.0</b>	<b>60.4</b>	<b>52.9</b>	<b>49.5</b>	<b>40.3</b>	<b>35.4</b>
<b>Berger Paints</b>	<b>773</b>	<b>751</b>	<b>Sell</b>	<b>480</b>	<b>7.2</b>	<b>9.1</b>	<b>10.6</b>	<b>107.8</b>	<b>85.2</b>	<b>72.8</b>	<b>63.5</b>	<b>52.0</b>	<b>45.0</b>
Britannia	3,608	869	Buy	4,500	79.7	85.2	98.8	45.3	42.3	36.5	34.4	32.5	28.3
Colgate	1,520	413	Buy	1,700	34.2	38.0	42.9	44.4	40.0	35.4	28.8	26.1	23.1
Dabur	533	942	Hold	530	10.1	11.7	13.4	52.6	45.4	39.9	42.5	35.8	31.2
Emami	481	214	Hold	350	12.8	13.7	15.2	37.7	35.0	31.7	26.0	23.4	20.8
GCPL	790	808	Hold	700	16.4	18.0	20.4	48.3	43.8	38.8	33.4	30.4	27.0
HUL	2,409	5,661	Hold	2,250	35.2	42.6	49.1	68.5	56.6	49.0	48.2	40.0	34.8
ITC	211	2,592	Buy	250	10.5	12.9	14.3	20.1	16.4	14.7	15.0	12.1	10.8
Marico	419	541	Hold	380	9.1	10.2	11.3	46.2	40.9	36.9	33.3	29.7	26.8
Nestle	17,590	1,696	Hold	15,800	229.6	269.3	310.6	76.6	65.3	56.6	52.7	45.3	39.4
<b>Pidilite</b>	<b>1,735</b>	<b>882</b>	<b>Sell</b>	<b>1,260</b>	<b>21.6</b>	<b>27.1</b>	<b>30.9</b>	<b>80.3</b>	<b>64.0</b>	<b>56.1</b>	<b>56.2</b>	<b>44.9</b>	<b>39.4</b>
Radico Khaitan	515	69	Buy	600	18.9	23.0	26.7	27.2	22.4	19.3	17.0	14.2	12.1
United Breweries	1,246	330	Buy	1,420	5.1	23.5	29.1	243.8	53.1	42.8	71.2	28.7	24.1
United Spirits	625	454	Buy	640	7.9	14.4	17.3	79.4	43.4	36.2	42.2	27.2	23.2

Source: Company, Emkay Research

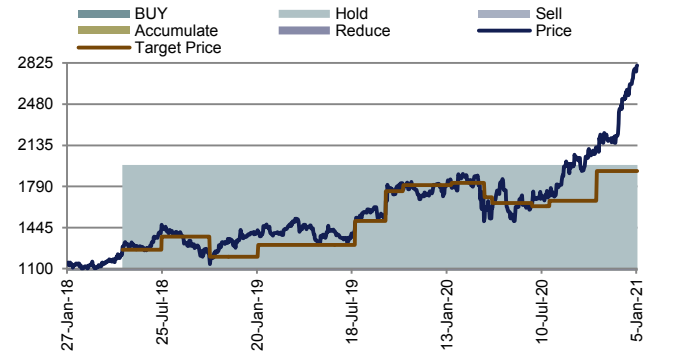
## Asian Paints

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Oct-20	2,100	1,920	12m	Hold	Ashit Desai
25-Jul-20	1,712	1,670	12m	Hold	Ashit Desai
24-Jun-20	1,747	1,625	12m	Hold	Ashit Desai
22-Jun-20	1,652	1,625	12m	Hold	Ashit Desai
14-Apr-20	1,681	1,650	12m	Hold	Ashit Desai
8-Apr-20	1,609	1,650	12m	Hold	Ashit Desai
24-Mar-20	1,525	1,700	12m	Hold	Ashit Desai
22-Jan-20	1,779	1,820	12m	Hold	Ashit Desai
25-Dec-19	1,803	1,800	12m	Hold	Ashit Desai
23-Oct-19	1,767	1,800	12m	Hold	Ashit Desai
20-Sep-19	1,671	1,750	12m	Hold	Ashit Desai
24-Jul-19	1,483	1,500	12m	Hold	Ashit Desai
9-May-19	1,354	1,300	12m	Hold	Ashit Desai
9-Apr-19	1,445	1,300	12m	Hold	Ashit Desai
22-Jan-19	1,407	1,300	12m	Hold	Ashit Desai
23-Oct-18	1,138	1,200	12m	Hold	Ashit Desai
24-Jul-18	1,468	1,370	12m	Hold	Ashit Desai
11-May-18	1,286	1,260	12m	Hold	Ashit Desai

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Consumer Goods & Retail



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#### Sector

Consumer Goods & Retail

#### Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 12 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Consumer Goods &amp; Retail</b>	<b>11.13</b>	<b>11.13</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
Asian Paints	1.49	0.63	-58%	-86	5.65
Berger Paints	0.24	0.00	-100%	-24	0.00
Britannia Industries	0.52	0.67	28%	15	6.00
Colgate-Palmolive	0.25	0.30	18%	4	2.67
Dabur India	0.37	0.43	15%	5	3.84
Emami	0.12	0.00	-100%	-12	0.00
Godrej Consumer Products	0.37	0.00	-100%	-37	0.00
Hindustan Unilever	2.58	2.18	-15%	-40	19.60
ITC	2.33	2.54	9%	21	22.83
Marico	0.26	0.30	14%	4	2.70
Nestle India	0.77	0.62	-20%	-15	5.58
Pidilite Industries	0.33	0.00	-100%	-33	0.00
Radico Khaitan	0.00	0.37	NA	37	3.32
United Breweries	0.11	0.59	454%	48	5.29
United Spirits	0.00	0.44	NA	44	3.97
Varun Beverages	0.11	0.24	127%	14	2.19
ABFRL	0.07	0.26	292%	20	2.38
Jubilant FoodWorks	0.21	0.23	7%	2	2.06
Page Industries	0.20	0.22	13%	2	2.01
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.78	1.10	41%	32	9.91
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	22-Jan-20	22-Jul-20	21-Oct-20	21-Dec-20	20-Jan-21
EAP - Consumer Goods & Retail	100.0	108.7	106.0	103.3	116.5	122.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	102.8	99.8	99.7	113.1	118.2

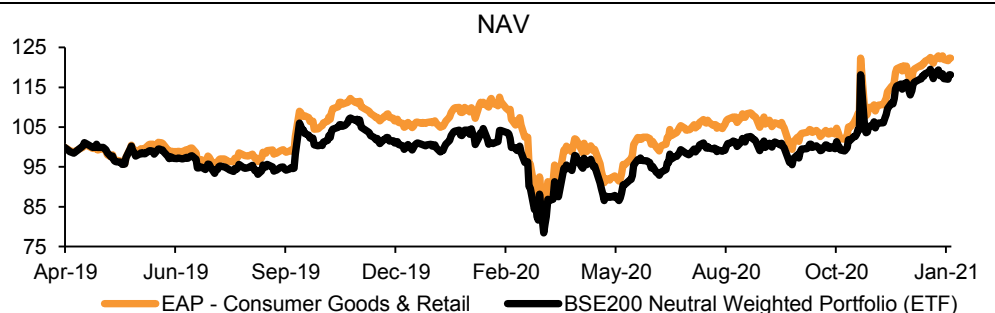
\*Performance measurement base date 1<sup>st</sup> April 2019 | Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Consumer Goods & Retail	5.1%	18.5%	15.4%	12.6%
BSE200 Neutral Weighted Portfolio (ETF)	4.5%	18.5%	18.5%	14.9%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Jan 2021 11:14:18 (SGT)

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