

Grasim Industries

Ambitious targets; execution key

Grasim Industries launched its decorative paints business under the brand 'Birla Opus Paints' on 22 February 2024. It commenced production at three facilities located in Panipat (Haryana), Ludhiana (Punjab), and Cheyyar (Tamil Nadu). Three additional plants are scheduled to be commissioned in Chamarajanagar (Karnataka), Mahad (Maharashtra), and Kharagpur (West Bengal) in phases throughout FY25. Together, these six plants will have a combined installed capacity of 1.33mn KL, with plans for expansion by another 0.5mn KL in Phase 2. The company has already spent ~INR60bn of the 100bn capital outlay earmarked for Paints (as of Q3FY24). The management has set itself an ambitious target of hitting INR100bn in revenue and achieving profitability within three years, which we view as challenging due to potential distribution bottlenecks. Nevertheless, Grasim could potentially capture a fair market share among top paint companies due to its (1) strategic focus on milking white spaces across price points and (2) leveraging distribution weaknesses of competitors ranked second and below.

Key takeaways from the management meeting:

- **Grasim has a 5D strategy for growth:** Design, Develop, Disrupt, Distribute, and Delight customers by offering differentiated products for growth.
 - (1) **Design:** Birla Opus will sport among the widest product range in the industry of 145+ products, 1,200+ SKUs and 2,300 tintable colour options.
 - (2) **Develop:** GRASIM commissioned all its greenfield plants within 20 months of receiving regulatory approvals. All six facilities are fully automated with interconnected systems, and automated storage and warehousing. Backward integration will enable it to produce core ingredients in-house, including immersions for water-based paints and resin for both solvent-based and wood-finished paints.
 - (3) **Distribution:** By mid-Mar-24, Birla Opus offerings will be launched in Punjab, Haryana, and TN. By Jul 2024, all markets with a population of > 100k, and by exit FY25, all towns with a population of ~50k will be covered. The company established the second-largest network of painters even before the launch, with over 300k painters and contractors registered in just six months. It has already enrolled 3,500 dealers and targets to reach 50,000 dealers with a tinting penetration of 95% by Mar 2025. Their tinting machines (40% smaller in size vs currently prevailing machines) will be provided for free and digitally linked to the control hub. 150+ depots will service the dealer network and help them improve their working capital (targeting four-hour service levels). It will also offer financing options to dealers via Aditya Birla Capital.
 - (4) **Disrupt:** It is committed to redefining the paradigm for institutional contractors and painters, who are this industry's backbone. It has enrolled 300k+ painters and contractors before the launch. It will launch a painter partnership program 'Udaan' to showcase work and attract new business and a loyalty program with instant redemption. It will also offer unmatched rewards for all products.
 - (5) **Delight:** Several initiatives are planned to delight the customer: (1) GRASIM will be opening Birla Opus paint studios in 11 major cities and Birla Opus paint galleries across 300 towns; (2) its track-and-trace system (QR-based) will enable end-to-end box traceability from production to application; (3) paint boxes will be laser-printed to make them tamper-proof; (4) an additional one-year warranty will be offered on most water-based products and first-time product warranty on enamels and wood-based products; (5) value offer: extra 10% quantity will be offered on most water-based paint products during the promotion period.

NOT RATED

CMP (as on 23 Feb 2024)	INR 2,194
Target Price	NA
NIFTY	22,213

KEY STOCK DATA

Bloomberg code	GRASIM IN
No. of Shares (mn)	658
MCap (INR bn) / (\$ mn)	1,445/17,668
6m avg traded value (INR mn)	1,538
52 Week high / low	INR 2,245/1,521

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.6	22.6	39.4
Relative (%)	1.8	10.4	17.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	42.75	43.06
FIs & Local MFs	16.92	16.77
FPIs	16.09	16.22
Public & Others	24.24	23.95
Pledged Shares	0	0

Source : BSE

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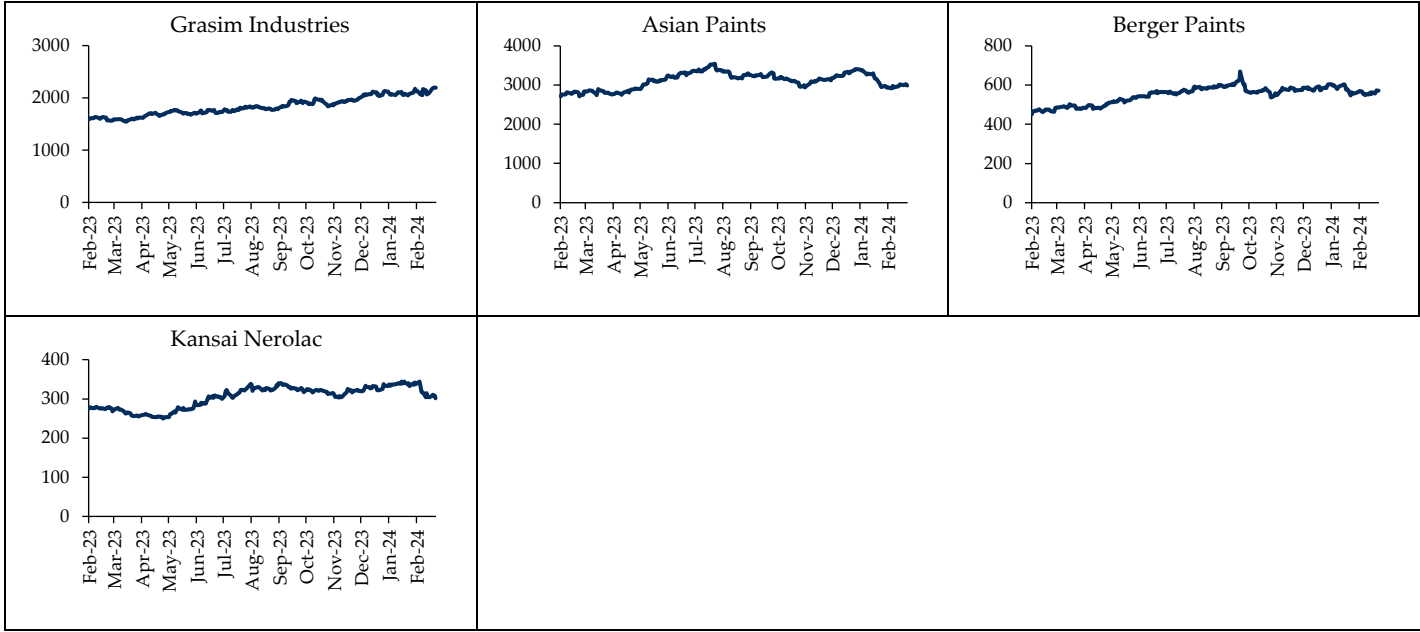
Our two cents:

- **Ambitions are impressive; but breaking the incumbents' dealer shackles not a walk in the park:** GRASIM's ambitious blitz-scale plan is impressive (will add 40% to industry capacity; capacity in 1st year > Combined capacity of second, third and fourth player). Its product sprucing via value offers (10% extra quantity offered on 85% of product range + additional warranties on products) coupled with giving away free tinting machines would certainly help penetration but breaking the tinting machine-led shackles on incumbents dealers' (esp. that of Top 2) will likely be a tough ask (GRASIM targets 50k dealers by FY25). This would need elevated branding investments and product innovation over a prolonged period of time to build the brand. Hence, while we believe GRASIM could gain fair share within the marketplace; 'the INR100bn revenue/profitability in three year' target seems a bit of a stretch.
- **Industry may likely suffer a bout of excess capacity over FY24-27:** All top paint companies have been aggressive in adding capacity (likely to add 2.5-3mn KLPA over FY24-27). This new capacity may be delivered at lower margins as (1) Momentarily capacity utilization shrinks, (2) Addition of a new player and ensuing rise in competitive intensity could lead to higher channel incentives and brand spends. While the top player has enough excess margin to give away, the same doesn't hold true for the rest. Against this backdrop, Birla Opus' target to achieve profitability by year three seems unlikely.
- **Another round of earnings downgrade may be on the cards:** Paints sector is likely to grapple with (1) elevated capacity levels, (2) Rising competitive intensity (courtesy GRASIM's entry in Paints) and their consequent impact on profitability (not completely factored in). We remain cautious on the sector and believe there could be another round of earnings/multiple downgrades on the cards. **We maintain our Reduce rating on APNT (TP: INR3,000/sh; implying 46x FY26 P/E), KNPL: (TP: INR 315/sh; implying 32x FY26 P/E) and downgrade BRGR to Reduce too (earlier ADD) (TP: INR560/sh; implying 40x FY26 P/E). Note TP change is a function of lower P/E assigned. EPS estimates already factor in partial impact.**

Company	CMP	M cap (INR bn)	Reco	TP	Revenue (Rs. bn)				EBITDA (Rs. bn)				PAT (Rs. bn)			
					FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Asian Paints	2,986	2,864	Reduce	3,000	345	362	401	443	63	79	84	93	40.6	55.1	57.7	62.4
Berger Paints	572	555	Reduce	560	106	113	127	142	15	20	22	25	8.6	12.2	14.0	16.2
Kansai Nerolac	302	244	Reduce	330	75	79	89	100	8	11	12	13	4.7	6.9	7.5	8.3

Company	EPS (Rs)				P/E (x)				RoE(%)				RoCE(%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Asian Paints	45.2	60.5	60.1	65.0	66	49	50	46	27.2	31.4	27.8	25.7	23.5	27.5	24.8	23.3
Berger Paints	8.9	10.5	12.0	13.9	65	55	48	41	20.4	24.7	23.5	22.6	17.1	20.4	20.1	19.8
Kansai Nerolac	5.8	8.6	9.3	10.2	57	38	36	32	10.8	13.6	12.8	13.2	10.8	13.5	12.7	13.2

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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