

No great euphoria for JK Cement's plans to paint big with Acro buy

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JK Cement Ltd investors are indifferent about its new acquisition. JK Paints and Coatings, a unit of JK Cement, has agreed to acquire 60% of Acro Paints for ₹153 crore, said a press release on Thursday. The remaining 40% shall be acquired over a period of 12 months.

With this, JK Cement is fast-tracking its entry into the paints business, expanding its product offerings and potentially foraying into new markets. In March 2022, JK Cement announced an investment of up to ₹600 crore for this business, spread over a five-year period, for setting up plants.

Acro Paints has two manufacturing facilities in Bhiwadi, Rajasthan, with a future capacity of 60,000 kl in decorative textured paints and 6,700 kl in construction chemicals.

At the acquisition cost, the enterprise value works out to around ₹40 per litre, which is similar to the commissioning cost of a greenfield plant, said Motilal Oswal Financial Services Ltd.

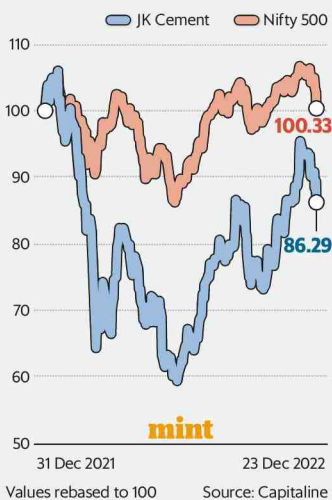
Analysts said that the acquisition alleviates concerns that a greenfield expansion would take longer to become cash flow positive. Further, Acro Paints has zero debt on its books, said the management.

In the last two trading sessions, the JK Cement stock lost 2.55% and closed Friday's session down 3.64%. While the overall stock market mood is currently sombre, some company-specific concerns are bothering investors.

"The paints business has no synergy with the grey cement business. Investors would prefer to have the paints and white/putty as a separate listed entity. Till then, this becomes sort of a conglomerate, diluting valuation multiple," said Rajesh Ravi, an institutional analyst at HDFC Securities Ltd.

A dull show

Despite the recent upmove, the JK Cement stock is lagging the Nifty 500 index so far in CY22.



SATISH KUMAR/MINT

JK Cement is fast-tracking its entry into paints biz, expanding its products & entering new markets

ties Ltd.

Recently, the paints sector has seen the entry of newer companies with deep pockets.

For instance, Aditya Birla-led Grasim Industries Ltd. The issue is that the paints industry has high entry barriers, and to make a meaningful mark, new entrants may have to commit larger capex. "Given the competitive intensity in the paint business, the company's paint foray will be significantly challenged and is not appreciated by investors," said Jefferies India Pvt. Ltd report on 22 December.

Meanwhile, the JK Cement stock is down nearly 14% calendar year to date. In comparison, the Nifty 500 has given marginally positive returns.

In the near term, no meaningful upside trigger is seen for the JK Cement stock, and valuation multiples are expected to remain subdued due to margin pressure in the white cement/putty segment, added Ravi of HDFC Securities Ltd.