Study of the Indian Paint Sector and Performance of Companies

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Abstract: The Indian paint industry is currently valued at Rs. 50,000 crores and is expected to reach Rs. 70,000 crores by 2021-2022. The industry is expected to grow at CAGR of 12-15% during this period. This was the statement given by Indian Paint Association (IPA). In terms of import-export, India imports paints double as compared to exports. The paints industry has come a long way from traditional white wash to usage of high-quality primers, enamel & emulsion. The rise in disposable income of the average middle class coupled with increasing investment on education, urbanization development of the rural market and various launches of many innovative products, like eco-friendly, odour free, and dust & water-resistant paints, are major drivers that are propelling the growth of the paint market in India.

Keywords: CAGR, Import, Export, Disposable income.

1. Background

The paint industry consists of two segments:

- Decorative Paint: It includes exterior wall paints. Interior wall paints, enamel and ancillary products like primers and putties. Decorative paints accounts for 80% of the overall paint market in India. The demand for decorative paints arises from household painting, architectural and display purpose. This segment is price sensitive and is a high margin business as compared to industrial segment.

- Industrial Paints: This segment includes mainly automotive coating, powder coating and protective coating. This accounts for the remaining 20% of the paint market. The demand arises from automobile engineering and consumer durables. This segment is far more technology intensive.

The Indian paint industry brought revolutionary changes in Indian industry in the form of market orientation, customer focus, new and unique products, large varieties, competitiveness, quicker market response, product reliability and even the financial support to customers. New products and production technologies, global manufacturing techniques and systems, computerization and a host of other innovations have come in, making the competition intense. The market for both decorative and industrial paints is growing rapidly. This has resulted in paint manufacturing companies facing severe competition.

Looking at the types of paint market, we have organized market which accounts for 70% in which we have big players like Asian paints, Berger paints, Shalimar Paints, Adani Paints, AkzoNobel, Kanaki Nerolac whereas in unorganized market there are some small and medium players which accounts for 30% of the market providing goods at cheaper rates.

This study focuses on analysis of the Paint sector as a whole. The study also emphasizes on major factors that affect the paint market as well as driving forces of the sector. It also covers certain govt. policies and reforms in the sector. The analysis also covers 3 major players of the industry. (Priti agarwal, 2018) (Neilson, 2017)

Objective:

- To study the 3 major players of the industry
- To study the latest trends in the Paint industry.

Hypotheses:

1. Whether the Paint market is highly fragmented or not.
2. Is there a positive correlation between GDP growth and Paint sector growth?
3. The govt. initiatives are helping the Paint Industry to grow.
4. The Decorative segment is dominating the Paint industry.

2. Literature Review

Dr. Kshitija Gandhi (2018) - Indian economy is one of the fastest developing economies on the planet according to the Central Statistics Organization (CSO) and International Monetary Fund (IMF). It will be one of the best three financial powers in coming 10 to 15 years because of solid majority rule government backing and organizations. The progression of FDI in India has expanded immensely due to changed arrangements of the Government. Various outside organizations are setting up their offices in India by virtue of different government activities like Make in India and Digital India. The enormous brand paint organizations are concentrating on building brand and showcasing systems which expands the cost of an item. Chaotic segments may exploit cost contend. The Paint business has splendid possibilities in the coming year. Accordingly, the interests in Paint industry may bring about benefit. Two driving organizations, Asian Paints Ltd and Berger Paints Ltd, recorded in National Stock Exchange are picked for the investigation.
The examination is done dependent on auxiliary information. The information gathered from the reports distributed by RBI, Website of NSE, Annual Reports for the multiyear time of the both the Companies. (Gandhi, march 2018)

R. Maruthi Ram (2018)- All the paint companies will have to make a detailed SWOT analysis in terms of the key success factors which contribute for overall successful performance. Among the key success factors the study indicates two important factors, which contribute for the success. They are the quality of the product and efficiency with which Supply Chain Management is performed. APL’s success is mainly because of highest quality maintained by the company and excellent supply chain management. Even though the other key success factors are important, if other companies want to acquire competitiveness in the Indian paint industry they must necessarily assess their competitive position by making in depth analysis of the key success factors and change their existing structures and strategies so that they could also become successful paint companies of world repute. (ram, 2018)

Prof. Iyer (2018)- The Indian paint Industry has a wide potential for development which is exhibited by the way that the per capita utilization of paint in India is just around 1 kg when contrasted with around 20 kg in the created nations or a worldwide normal of around 15 kg. In this way, the outright utilization of paint in India is unquestionably expected to rise. The piece of the pie of the sorted out out area is on an expanding pattern. Additionally, the commitment of modern section will increment with the proceeding with financial improvement of the nation. With India moving towards turning into a created economy, the enriching to modern paint proportion of 70:50 is relied upon to move towards the worldwide normal of 50:50. Subsequently the Indian paint industry is in its development stage and is relied upon to develop at a rate quicker than that of GDP. The future possibilities of the business are solid. (Iyer, November 2018).

3. Research Design/Methodology

The study is based on descriptive as well as analytical method of research. The information on current situations and trends of the industry is obtained by websites of the companies and various other websites. Further, the data collected of dealers is based on questionnaire survey method and were analyzed through simple statistical tools.

Sample Plan:
Profile of target sample - Dealers
Sample Size – 12-15
Location of study- Mumbai, Amritsar, BulandSaheer
Duration of study – 2month
Type of Sampling – Convenient Sampling

Data Collection:
Primary Data – The primary data has been collected by a questionnaire survey of Dealers. The objective behind the survey is to understand the preference of dealers and market scenario of Paint industry.

Secondary Data - Secondary data has been collected relating to industry and sample companies. The secondary data included information relating to industry overview, structure, recent developments in the sector and information pertaining to sample companies.

Limitations: The study conducted is to find the performance of the sector as per the latest data available and bound by the period of data. Also, the data collected by questionnaire method survey is collected as per the convenience and judgement of the dealers. This study only covers some parts of Mumbai, Amritsar, and Bulandsaher and hence there can be variations as per the region.

A. Government Policies and Reforms

The paint industry is majorly exposed to government regulations, norms and policies as well as other regulatory bodies. The industry has also been affected by geo political situations in the world.

GST: Recently, the govt has implemented GST in the year 2017-2018 which curtails the growth in the beginning and the demand for both the segment was subdued but later the companies have adopted the new tax system and has retrieved successfully.

Recently, the govt. has reduced the GST rate under GST reforms. Now the rate has come down to 18% from 28%. It will help the paint industry as cheaper cost of raw materials will reduce the cost of paints and ultimately the prices will come down.

Housing for All: The govt. has also taken an initiative housing for all under which the demand for housing is increasing rapidly at 27% year on year basis. This further benefitting the paint sector. Also, it was interesting to observe a rise of 23% demand for office space on year on year basis which further generates demand for industrial paints.

Fiscal Incentives provided to housing sector by the govt. also helping the paint sector

Make in India: Under the Make in India initiative the govt. wants to increase the share of manufacturing sector from 16% to 22% by 2022.

Apart from these reforms other policies like 100% FDI allowed in mfg. sector and automobile sector, development in infrastructure, roads also the regulatory bodies of the concerned sector come up with reforms like eco-friendly paint, dust resistant and many more like these has greatly affected the paint industry.

The paint industry is raw material intensive which consists of over 300 raw materials (50% are Petro-based materials) involved in the manufacturing process. Titanium dioxide and other crude oil derivatives such as phthalic anhydride and penaerythritol account for nearly 50 per cent of the input costs and, thus, profits of the industry players swing with the material cost. (Rakesh, 2013)

B. Decorative vs. Industrial

The products under the decorative finishes can be limestone
coatings, primers, distempers, cement paints, matt/lustre finishes, enamels, emulsions (first quality), and premium emulsions.

Consumption of paints is skewed towards decorative paints which account for 80% of paints sold in India. This is in a sharp contrast to the trend in developed countries, where the ratio is skewed towards the industrial segment.

This segment is marked by the presence of many players from the organized as well as unorganized sector. Competition is high, and margins tend to be low in this segment. Products of this segment are relatively price sensitive.

Demand for decorative paints is seasonal with bulk of sales taking place during the festival seasons from September to December. Besides sales remain slack during the monsoon months from June to August.

Decorative paints are marketing-savvy products and backed by large advertisement campaigns and dealership networks. These serve as high cost entry barriers for new companies in this business. The huge investments required in setting up a vast marketing and dealership network, to advertise and develop a brand over a period can only be afforded by companies in the organized sector. It is for this reason that smaller companies and small-scale sector units are slowly losing market share to the organized sector. (India Paint Industry Outlook 2022, February 2020).

### Industrial:

Demand for these paints is relatively price inelastic but is prone to business cycles and depends on industrial and economic growth. Major end user industries include shipping, capital goods, white goods and heavy industries.

The industrial paints segment due to specialized technology and high capital expenditure attracts fewer players. Most Indian companies have tied up with or are in the process of tying up with international paint majors to have access to the latest technology. A tie-up with a global paint manufacturer also enables the domestic company to supply to local customers of its partner. For example, Goodlass Nerolac is a major supplier to Maruti Suzuki because of Kansai, its Japanese collaborator and Suzuki relations. It is for the same reason that Asian Paints (tie-up with PPG Industries, USA) is a major supplier of paints to Opel Astra.

### Future Outlook

The Indian paint and coating industry is expected to grow steadily in the short and medium term on the back of strong growth in Indian economy.

The per capita paint consumption in India which is a little over four kgs is still very low as compared to the developed western nations. Therefore, as the country develops and modernizes, the per capita paint consumption is bound to increase. Indian paint industry is heavily investing in advanced process equipment. While, a few years back, you could count users of advanced technology on your fingers. But, in last few years, paint industry has realized the importance of advanced technology.

### Composition of Paints

#### Water-based paints and solvent-based paints

The paints manufactured are of two types – Water based paints and solvent based paints (also sometimes called as oil-based paints). For water-based paints, binder is water-based while for solvent based paints, the binder is oil-based. Emulsions are water-based paints and enamels are solvent-based paints.

The emulsions are ideal for painting walls while enamels are used for woodwork and metals. Also, solvent-based paints are ideal for bathrooms and kitchens as these paints are not much affected by water. The solvent based paints release Volatile Organic Compounds (VOCs) into the atmosphere that harms the environment while water-based paints do not release such harmful compounds and thus have least impact on the environment. Also, solvent based paints are known to produce bothersome odour.

The paint industry is raw material intensive which consists of over 300 raw materials (50% are Petro-based materials) involved in the manufacturing process. Titanium dioxide and other crude oil derivatives such as phthalic anhydride and penaerythritol account for nearly 50 percent of the input costs and, thus, profits of the industry players swing with the material cost.

Nearly 55% of raw materials used by paint companies are crude oil derivatives and account for about 30-35% of the total raw material cost of the sector. In the past one-year, crude oil prices have jumped by more than 40%. Not just that, prices of pigments like titanium dioxide, iron oxide and zinc oxide also remain elevated.

So, considering the cost pinch, there’s a growing tendency to use water-based paints, simply because water-based paint is less...
sensitive to movement in crude oil prices. As the name suggests, for water-based paints the binding agent is water-based. For the solvent-based paints, crude oil is required.

Secondly, the preference for water-based paints over solvent paints is also rising among customers because it is easier to clean walls painted with water-based paints. Also, the former is more environment-friendly. (Bloomquint, 2019).

E. Factors Driving Paint Market

1. Increased level of income and middle class in overall population.
2. Increasing urbanization
3. The repainting cycle which has reduced from 6-8 years and come down to 3-3.5 years
4. Construction of roads and infrastructure and development of realty, automobile sector
5. Increasing share of organized sector
6. Increasing penetration in rural market
7. Emerging it sector and latest technology
8. Use of water-based solvent
9. Increasing awareness among people and changing of mindset towards paints as a part of lifestyle nowadays

F. Factors Affecting Paint Industry

- Crude oil prices: As the industry is raw material oriented, it has 56% of raw materials are Petro-based material for which prices are majorly affected by fluctuations in crude price. If the crude prices are falling that will help in getting raw material at much cheaper rates.
- Tax Policies: The govt. taxation policies for the sector has large effect on revenue of the paint industry. Earlier, the GST rate was 28% which was challenging the industry but with the reduction in the rate from 28% to 18% comes as a relief to the sector.
- Rupee volatility also contributed to uncertainty on the cost front and continued to create challenges for the industry.
- GDP and Paint Growth are closely linked and have positive correlation.
- Pollution Reforms: Latest reforms by pollution control bodies, environment law, health and safety law.
- Monsoon also plays a critical role in driving the sales of the paint sector, as good monsoon will lead to increase in demand for paints.

G. Latest critical factors involved in success of a company

Automated Tools: As per the recent trend, it has been observed that many companies are moving forward with the use of more automated tools for painting which helps in reduction of wastage, saves time and efforts and proves to be an effective way of painting.

Service Innovations: The top players are actively looking at bringing innovations in providing services to end users and addressing key consumers pain-points in service leading to enhancing customers experience which has led the companies to have great results.

Skill Development of Painter: Nowadays, the companies are also working on the skill development to grow with the employees.

Product Innovation: The paint industry has come a long way, and, in this journey, many new products have been added in the portfolio. Bringing new innovations in the product has given tremendous results to the companies.

Brand Building: The paint industry is having intense competition, everyone trying to capture as much as market share and want to be leader in the market. It is brand building which certainly plays critical role in success of the company. Many companies are actively investing in digital advertising, promotion of brand, marketing because that has helped in retention of the brand in the minds of customers.

Strong Distribution Channel: This is one of the most critical factors that every company focuses on expanding distribution channel and adding more and more outlets as well as SKU to have a better availability of inventory and penetration into the market.

4. Major Players

A. Asian Paints

Since its foundation in 1942, Asian Paints has come a long way to become India’s leading and Asia’s third largest paint company, with a turnover of Rs 193.50 billion. Talking about the global expansion, currently the company operates in 16...
countries and have 27 paint manufacturing facilities in the world, servicing consumers in over 65 countries. The company operates in four business segments:

- Decorative
- Industrial
- International operation
- Home improvement business

From the beginning of the journey the company was strongly active in product innovation. Today, it is double the size of any other paint company in India and a front runner in the paint industry far beyond the competition.

Asian Paints manufactures a wide range of paints for decorative and industrial use. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International, Asian Paints Berger, Apco Coatings, SCIB Paints, Taubmans, Causeway Paints and Kadisco Asian Paints.

In Decorative paints, Asian Paints is present in all the four segments i.e. Interior Wall Finishes, Exterior Wall Finishes, Enamels and Wood Finishes. It also offers Water proofing, wall coverings and adhesives in its product portfolio. Asian Paints is the market leader in decorative paint category. (paints, 2017).

Financial Performance:

- Company has a good track record of return on equity for 3 years: 25.49%
- The return on capital employed is 35.13% which exceptionally well.
- Looking at sales growth of the company it has 10.66% growth.
- The company is virtually debt free company and promoters of the company has 52% stake in the company.
- Company is maintaining a healthy dividend payout ratio of 46.15%
- Looking at no. the topline has 15.8% of growth on year on year basis and 5year CAGR of 10% whereas the bottom line has 12.7% of growth on YOY and 5year CAGR OF 12.7%

Future Outlook: The company has entered into kitchen furniture and wardrobe as well as bathroom fitting which has shown exponential growth of 20% and will be the growth drivers for future. In fact, the slew of recent capacity expansions announced by company is focused more on water-based units.

For instance, market leader in decorative paints Asian Paints Ltd.’s plant in Mysuru has 600,000 kilolitres per annum water-based capacity. The company has a larger share of water-based paints than competitors, pointed out brokerage house Jefferies India Pvt. Ltd in a report dated 10 May

B. Kansai Nerolac

Kansai Nerolac is the second largest coating company in India and a market leader in Industrial Coatings. The company was established in the year 1920 at Lower Parel in Mumbai which was named as Gahagan Paints and Varnish.

- The company has its presence in more than 80 countries serving the customers worldwide.
- The company has its presence in both the segment i.e. decorative as well as industrial paints.
- Kansai Nerolac is a subsidiary company of Japan based Kansai Paint limited, which is one of the top ten companies in the world.
- The competitive advantage of the company is technologically innovative products and providing differentiated products with focus on eco-friendly paints.
- The company has 3 segments of business:
  - Decorative Paints
  - Automotive Coatings
  - Performance Coatings
- One interesting fact about Kansai Nerolac is the contract of brand ambassador from Amitabh Bachhan to Shahrukh khan and Ranveer Singh. The company invest heavily in promoting the brand through these superstars. (Nerolac, 2019)

Financial Performance:

- The company has given a good avg. return on equity of 17.23% for 5 years.
- The Return on capital employed stood at 20.96% which is showing a handsome return by the company.
- The company is virtually debt free company with Debt to Equity Ratio 0.00
- The Company is maintaining a healthy dividend payout for 3 years at 29.68%
- Looking at the current no. of the company the topline has growth of 12.96% whereas the bottom line has come down by 9.49%

Future Outlook: The company has 3 green field-project in the pipeline to increase its production capacity. The leader in the industrial paints segment Kansai Nerolac Paints Ltd has been consistently increasing the share of water-based paints in its portfolio.

“Nearly two-third of our revenue in the decorative paints category comes from water-based paints. In general, gross margins are better for water-based paints as compared to that for solvent-based,” Peeyush Bachlaus, general manager
(marketing) at Kansai Nerolac Paints, said in an interview.

C. Berger Paints

Berger Paints India is headquartered at Kolkata, with 10 strategically located manufacturing units and about 110 stock points. The company also has an international presence in 4 countries (Nepal, Bangladesh, Poland and Russia). With employee strength of above 2800 and a countrywide distribution network of 25,000+ dealers.

The company is present in 2 segments:
- Decorative
- Industrial

Since the beginning of the journey the company is actively looking for acquisition, joint ventures, subsidiary, strategic partnership with other paint players and expanding the business in foreign countries as well as in India also.

The company has started its paints related services very early back in 90’s and aimed at solving end user problems as well as enhancing customers experience. Since then, the company has continuously improved its services which has given good results.

The company has come up with Express Painting which has supreme service providing benefits like painting with automated tools, scientific process, 80% reduction in dust and 40% reduction in time of painting. So overall, the customers feel delighted.

Financial Performance:
- The company has given a good return on equity at the rate of 21.93%
- The Return on capital employed looks well at the rate 28%
- The company is virtually debt free and Debt to Equity ratio is 0.20
- The promoters of the company have maintained a large stake of 74.98%
- Company has been maintaining a healthy dividend payout of 34.89% which is quite good.
- The company has maintained sales growth of 7.40% over last 3 years. (Paints, 2019).

5. Conclusion

Looking at the types of paint market, we have organized market which accounts for 70% in which we have big players like Asian paints, Berger paints, Shalimar Paints, Adani Paints, AkzoNobel, Kansai Nerolac whereas in unorganized market there are some small and medium players which accounts for 30% of the market providing goods at cheaper rates.

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