

INDIAN PAINT INDUSTRY ANALYSIS

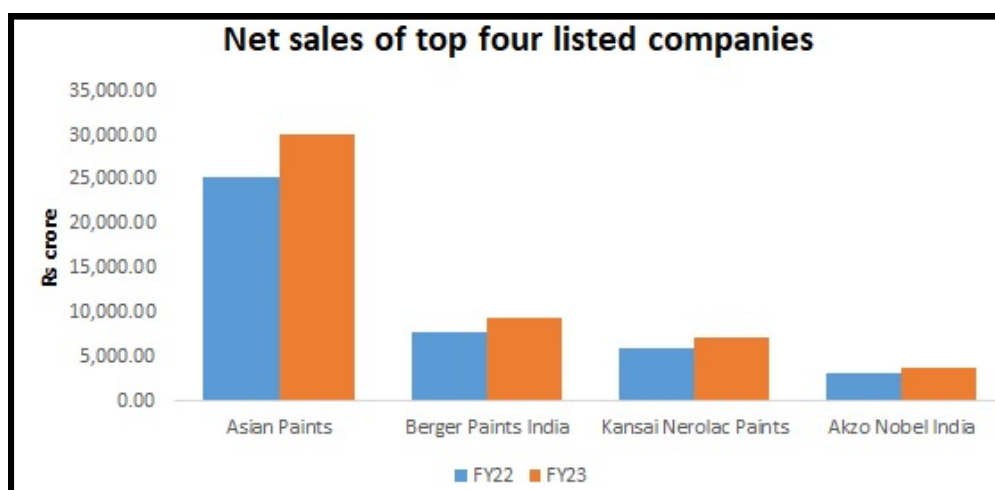
January - 2024



After being affected by COVID disruption in 2020 and the first half of 2021, the industry started to gain momentum during the second half of 2021. But, high crude oil prices in 2022 have had a significant impact on profitability of the paint companies in 2022, though industry's overall performance has been satisfactory on volume and value fronts. There are expectations that Indian paint & coating industry will be worth Rs 1,000 billion (\$12.34 billion) during the next five year, a growth of 43% from the current levels.

RISE IN NET SALES OF TOP FOUR LISTED COMPANIES

There are four large paint companies with a combined market share of 70 per cent - Asian Paints, Kansai Nerolac, Berger, and Akzo Nobel. Rest 30 per cent is made up of medium and small players totaling nearly 3000 manufacturers. Sales of paint companies have showed significant improvement in the fiscal year 2022-23 (FY23) over FY22. Among the top four listed companies, Asian Paints reported sales of Rs 30,078.40 crore in last year over Rs 25,188.51 crore in FY22, a growth of 19.41%. Similarly, Berger Paints India reported sales growth of 22.34%, Akzo Nobel India 20.76%, Kansai Nerolac Paints 19.03%, and Indigo Paints 18.47%. The improvement in sales performance can be attributed to value additions with more premium products offering, new launches, and distribution expansion. Also, with the raw materials prices easing, the companies in the segment witnessed margin expansion during the quarter along with value and volume growth.



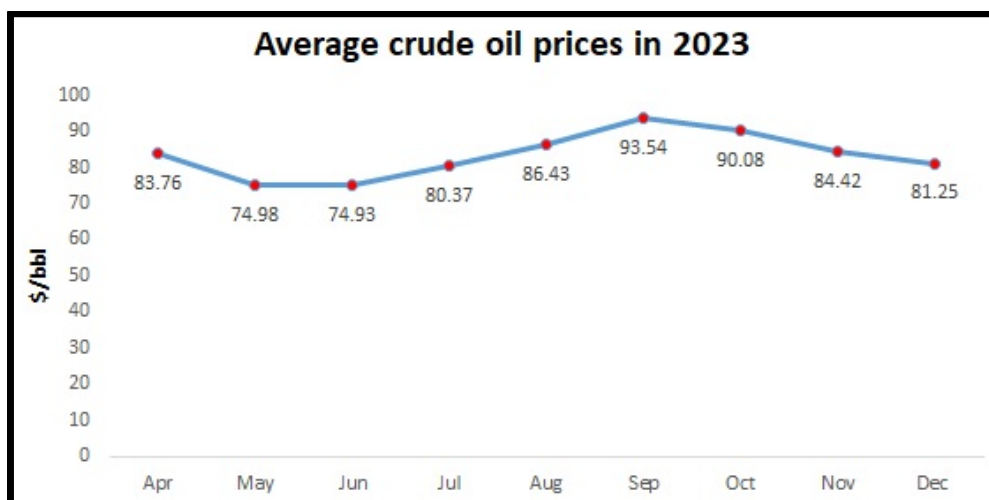
POSITIVES FOR THE INDUSTRY

- **Easing prices of crude oil:**

Raw materials like phthalic anhydride, pentaerythritol, methyl methacrylate, aromatics, etc., which act as binders, solvents and additives, are derivatives of crude oil. In fact, nearly 50 per cent of raw materials used by paint companies are crude oil derivatives and account for about 30-35 per cent of the total raw material cost of the Indian paint & coating industry. Volatile crude oil and derivative prices pose a risk to the profitability of Indian paint & coatings producers.

Production for paint heavily relies on crude-based derivatives which are used as raw materials and likewise, their cost of manufacturing is directly impacted by the price of crude. The dependence of paint companies on crude oil derivatives is such that it accounts for around 40 per cent of their overall raw materials. When crude prices rise, it also lifts the input costs for paints companies, putting a pressure on their profit margins. Hence, a rise in oil prices works negatively for paint manufacturers and vice versa. Oil is a key raw material for decorative paints (a segment which brings in high-margins).

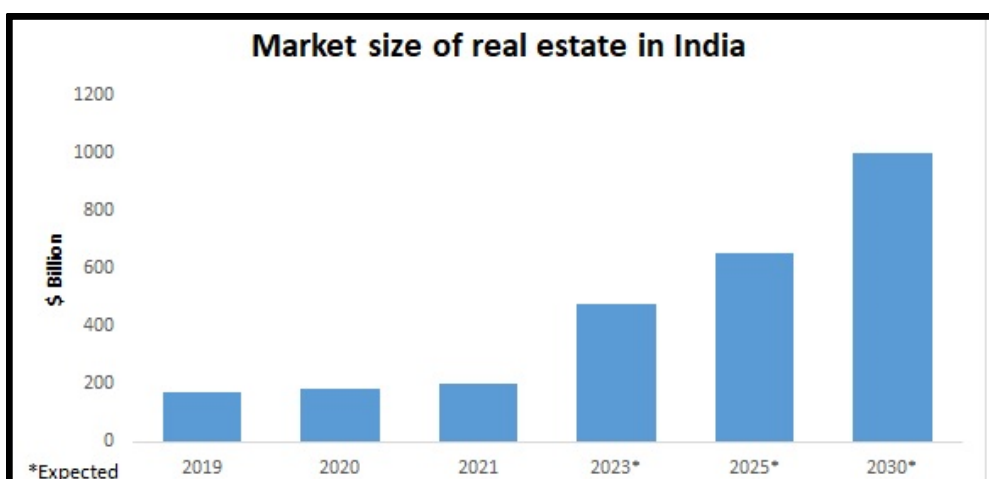
Crude oil prices steadily increased to an average \$93.54 per barrel till September 2023 from an average \$74.93 in June 2023 amid report that US crude stocks fell more than expected, adding to worries of supply tightness amid production cuts by the Organisation of Petroleum Exporting Countries and its allies (OPEC+). After September 2023, oil prices started easing and now in December 2023 it is at an average \$81.25 per barrel amid uncertainty over global fuel demand growth. Oil prices are likely to continue to be under pressure for the time being due to China's disappointing economic recovery and the ramp-up of U.S. production. Thus, a margin recovery for paint companies can be expected in coming time on the back of an easing in input costs.



• Improvement in real estate industry

The paint industry's demand dynamics are largely shaped by the real estate sector, which commands around 70 per cent of the total market demand. Demand for decorative paints increases due to a rise in both repainting activities and housing sales. Traditionally, about 20 per cent of the demand for decorative paints comes from new construction. The expectation of revival in the housing sector and growing people's aspirations post-Covid pandemic has buoyed many corporates to plunge into the paint industry. Indian real estate sector is showing decent growth with rise in demand for office as well as residential spaces.

The existing economic conditions have proven to be favourable for the real estate and construction sectors in India. Lower interest rates and higher disposable income amongst people have led to a strong recovery in demand for real estate properties. Developers are focusing on completing projects and are also launching new ones. Affordable housing continues to be a critical issue in India, with the government and real estate developers playing a significant role in addressing the housing needs of the population. This is also likely to support the paint & coating industry in the country.

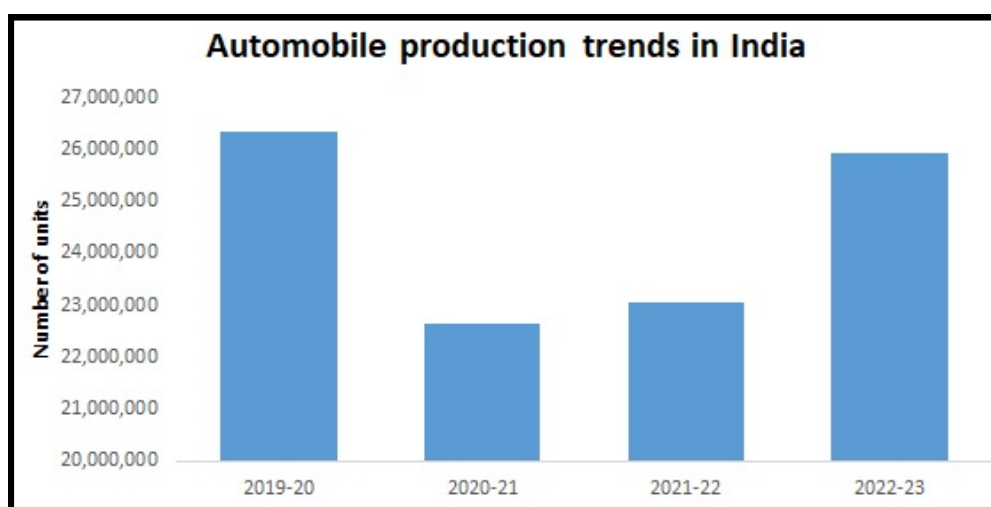


• Growing automobile production

Automotive paint is referred to as a water-based formula, which is sprayed on automobile surface with the assistance of a spray gun. These paints consist of polyurethane-based enamel, which protects the surface from environmental damages, thus enhancing aesthetics of motor vehicles. Factors such as increase in automobile production and surge in demand for eco-friendly automotive paints are the key factors that drive growth of the global automotive paints market.

Developing nations have witnessed rise in demand and production of automobiles, which is expected to support the demand for automotive paints. The Indian passenger car market was valued at \$32.70 billion in 2021, and it is expected to reach a value of \$54.84 billion by 2027 registering a CAGR of over 9 per cent between 2022-27. The global EV market was estimated at around \$250 billion in 2021 and by 2028, it is projected to grow by 5 times to \$1,318 billion.

India is also a prominent auto exporter and has strong export growth expectations for the coming time. In addition, several initiatives by the Government of India such as the Automotive Mission Plan 2026, scrappage policy, and production-linked incentive scheme in the Indian market are expected to make India one of the global leaders in the two-wheeler and four-wheeler market by 2022.



CHALLENGES FOR THE INDUSTRY

- **TiO₂ issue:**

The paint & coating industry is the major end-use industry for titanium dioxide (TiO₂). Titanium dioxide pigment, forming around 25 per cent of the total content of paint, is by far the most important material used by the paint & coating industry due to its whiteness, opacity and refractive index ability i.e. its ability to bend and scatter light. It is commercially available in two forms - Anatase and Rutile. Of these two forms, Rutile TiO₂ is more durable and stable and is also considered to be more efficient in scattering light; while anatase pigments are used mostly in cheap dispersion paints, self-cleaning paints and in road marking paints. Application of rutile pigments is much broader and in practice covers all paint types.

Around 70 per cent of the India's domestic demand for TiO₂ is met through import deliveries and China is the leading exporter of TiO₂ to India. Steady growth of TiO₂ production in China kept the TiO₂ prices in check. Volatility in Rupee has made the imports costlier for Indian paint producers by a similar amount. However, insufficient domestic production of TiO₂ is likely to pose problems for Indian paint producers in coming years on account of ban on mining of beach minerals by Indian government. Beach minerals ilmenite and rutile are the basic feedstock for the manufacture of TiO₂. Indian government's ban in 2019 on mining of beach minerals by private companies has affected the whole chain of inter-related connected producer and user industries.

Meanwhile, India's Meghmani Organics (MOL) is likely to double its TiO₂ capacity to 33,000 tonnes/year by December 2023 at a cost of around Rs 3.75 billion (\$45.98 million). The company's TiO₂ production is mainly targeted at the domestic market. MOL is a leading pigments and agrochemicals producer in India with six production facilities located in Gujarat.

- **Seasonal demand**

The demand for decorative paints largely depends on the housing sector and monsoon season, while industrial paint demand is linked to end-user industries like automotive, engineering and consumer durables. Also, the demand buoyancy during festivals followed by the marriage season typically contributes around 25 per cent to 30 per cent to industry sales. Festive paint demand is spread across categories from interior and exterior paints, ranging from premium to economy spectrum, to protective solutions for wood and waterproofing.

- **Emerging trend of water-based paint:**

Water-based paint is one of the most popular and well-known paint types for home applications. This is because emulsion water-based paint is eco-friendly, odorless, and has a wide range of color options. Additionally, it is easy to apply water-based paint with simple brushes and paint rollers. Water-based paints are also called latex paints. They consist of a pigment and a binder with water used as a carrier. Water-based paint is more advantageous compared to oil paint as it dries faster, is environmentally friendly, odorless or has less odor, preserves its color over time and can be cleaned with soap and water.

Meanwhile, Asian Paints is planning to set up a new water-based paint manufacturing facility with a capacity of 4 lakh kilolitres per annum at an investment of around Rs 2000 crore. The manufacturing at the facility is expected to be commissioned in 3 years, after acquisition of land. The company is exploring the possibility of making this investment and setting up the manufacturing facility in the state of Madhya Pradesh, subject to grant of requisite incentives by the Government of Madhya Pradesh and such other approvals and clearances, as may be required. The Company would use latest manufacturing technology to produce paints and intermediates in the proposed manufacturing facility in an environment friendly manner.

ISRAEL-PALESTINE CONFLICT IMPACT ON THE PAINT & COATING INDUSTRY

A surprise attack by Iran-backed Hamas, a Palestinian militant group, killing over thousands in Israel, has re-ignited geopolitical tensions and sent oil prices surging. With this, oil prices have reversed recent fall, stoking inflationary concerns. If the Middle East tensions extend, it would give weight to 'higher-for-longer' Fed narrative, which may hurt rupee and lead to foreign equity outflows. A knee-jerk reaction is awaited across asset classes. But the situation will change if Iran, a major Hamas supporter, is drawn into the war. Israel and Palestine are not oil producers, but Iran is.

The heightened political uncertainty in the region poses concerns of a supply disruption from the Middle East, accounting for around one-third of global supply. The Israel-Palestine crisis may lead to a sharp rebound in crude prices. If crude oil prices go up, the paints industry gets badly hit as crude oil derivatives are the main ingredients used in making paints. These companies have no control over these input prices. The Israel-Hamas war has the potential to keep crude oil prices higher for longer, and this would be unfavourable for companies like Asian Paints, Berger Paints, IndiGo Paints, Kansai Nerolac Paints.

NEW ENTRANTS IN THE PAINT & COATING INDUSTRY

The competition in the paint business is heating up with the entry of companies like Grasim Industries, JK Cement. Asian Paints, Berger, Nippon, Kansai, and AkzoNobel, are the existing players in the industry.

- **Grasim Industries**

unveiled the brand name of its paints business as 'Birla Opus', wherein the flagship company of the Aditya Birla Group has plans to invest Rs 10,000 crore. Birla Opus will be launched in Q4FY24 and compete with the players in the decorative paints segment. The company has set manufacturing plants at six locations in Haryana, Punjab, Tamil Nadu, Karnataka, Maharashtra, and West Bengal. It will have a total capacity of 1,332 million litres per annum (MLPA) and serve demand centres across the country.

- **JK Cement**

forayed into the paints business by acquiring 60 per cent stake in Rajasthan-based Acro Paints in a Rs 153 crore deal. Its wholly-owned subsidiary JK Paints and Coatings has entered into a share purchase agreement with Acro Paints and its shareholders to acquire a 60 per cent controlling stake in the company. Acro Paints is a manufacturer of architectural and high-performance paints and coatings. This acquisition is a step towards fast-tracking JK Cement's entry into the paints business, expanding its product offerings and potentially foray into new markets.

- **Pidilite Industries**

launched its decorative paints in smaller towns in Andhra Pradesh, Telangana, and Orissa two months ago. The company, which already has a presence in waterproof coatings and lower-priced distempers, has completed its product range with the launch of interior decorative paints. The company's standing and network, the initial reactions were good for the paint business.

OUTLOOK

The Indian paint & coating industry's progress is depended on the growth of end user industry like real estate and automobile. With a boom in real estate industry and sharp rise in automobile production in the country, the outlook of Indian paint & coating industry looks promising in coming time. The real estate sector accounts for about 65-70 per cent of the total paint demand. The demand from real estate is likely to be robust in FY24 on expectation of significant project completion, and increased government spending on affordable housing and infrastructure. After Covid-19 shock and chip crisis, the automobile industry is also on growth track with increasing production and rising sales coupled with exports. Improving sales in the paint industry also likely to lend some support to the future growth of the industry. Besides, easing crude oil prices are likely to provide some relief to the domestic paint & coating industry as input cost burden may ease to some extent. The prices of raw materials which account for nearly 50-60 per cent of total sales have remained high during FY22 and first half of FY23 due to the supply disruptions during the Covid-19 pandemic followed by the Ukraine-Russia war impacting the crude oil prices. However, the prices of raw materials have started cooling from the second half of FY23. This may lead to higher margin for the domestic paint industry. Further, change in lifestyle, urbanization, and increase level of education are likely to lend some support to the demand for the paint.

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