

# Indian Paint Industry: An Empirical Study to Bring Forward the Bright and Tight Side of the Industry

Abhay Tiwari<sup>1, \*</sup>, Saurabh Chhabra<sup>2</sup>

<sup>1</sup>Department of Mechanical Engineering, Punjab Technical University, Punjab, India

<sup>2</sup>Department of Business Management, Institute of Management and Technology, Ghaziabad, India

## Abstract

Indian paint industry has witnessed a paradigm shift in the preferences and requirement of the customers – A shift from using traditional whitewash to superior quality paints such as enamel and emulsions. The paint industry in the country is the 7<sup>th</sup> largest in the world and is valued at USD 6 Bn (4 million metric tonnes by volume) for 2016-17. CIBC estimate that the industry would continue to exhibit a double-digit growth of 12%-13% over next 4-5 years.

## Keywords

Mn (Million), CAGR (Compound Annual Growth Rate), GST (Gross Service Tax), FY (Financial Year), YOY (Year on Year)

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## 1. Introduction - Market Scenario

The Indian paint industry has seen substantial traction over last few years and has been named as second largest paint market in Asia. The fact that India's economic growth rate has been ahead of its other counterparts in Asia, the associated infrastructure development has been the key reason for a surge in demand of paint products.

- 1) The Indian paint market is expected to have already touched USD 6 billion in FY 2016-17, with ~38-40% of the contribution from unorganized sector
- 2) The industry is expected to reach USD 10 billion by 2020, growing at a CAGR of over 13% over 2016-20

The economic reforms and modern demand have also helped the Indian paint industry. Paint was one of the costly items in the building material industry. In the eighties, excise duty on paints used to be as high as 45%. After reforms gradually the excise duty started declining from forty percent to a lower level. Today the excise duty is as low as sixteen percent. The make in India facilities also have helped the industry to grow.

According to Concept International Business Consulting research, the entry of foreign players has added to the growth of Indian paint industry [8].

## 2. Major Segments of Paint Industry

The paint market is broadly categorized into the two segments - *Decorative Paint and Industrial Paint* with ~70% of the market is controlled by Decorative paints that comprises household/wall paintings, architectural and other display products.

### 2.1. Decorative Paints

The decorative segment consists of exterior and interior emulsions, enamels, primer and thinner, distemper, wall putti. Emulsions and distempers are used for painting walls, enamels for wood and metals, primers and putties for bringing evenness on the walls before final paint is applied. Of the emulsion and distemper paints, emulsion paints are comparatively costlier on account of its better quality as emulsions provide smoother finish to walls and are more

\* Corresponding author

E-mail address: [abhaytiwari736@gmail.com](mailto:abhaytiwari736@gmail.com) (A. Tiwari)

durable and long lasting compared to distempers.

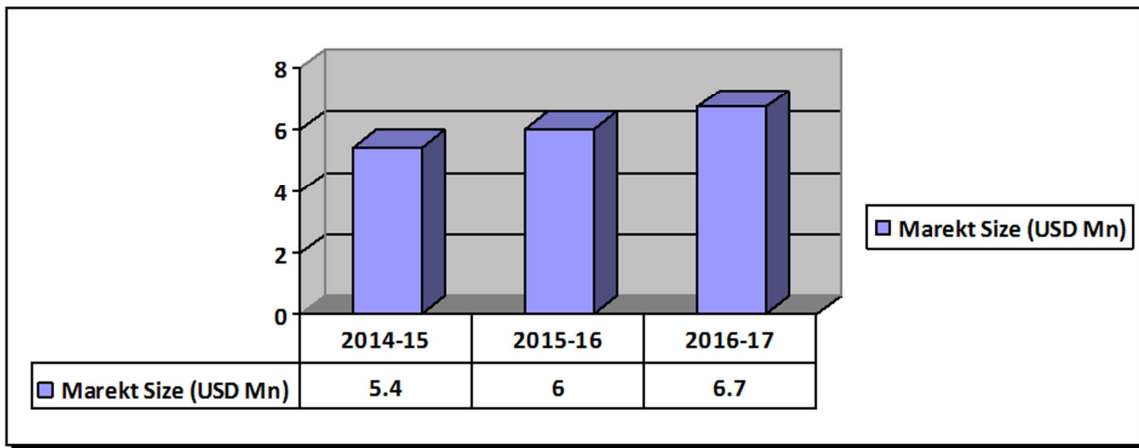


Figure 1. Indian Paint Market Size.

### 2.2. Industrial Paints

The industrial paint includes auto OEM paints and protective coatings, auto refinish, GI (General Industrial) paints, powder coatings. Auto OEM paints and protective coatings and auto refinish paints are used by auto producers for painting automotive interiors and exteriors, GI paints are used for construction, heavy engineering & agricultural equipment

etc. Powder coatings are usually used for coating metals and for auto ancillaries, electrical equipments, consumer durables etc.

This segment is dependent on business cycle activity and economic conditions while the decorative paints segment is dependent on the housing sector and repainting cycle.

Decorative vs Industrial Paint Market 2017-18 (in %)

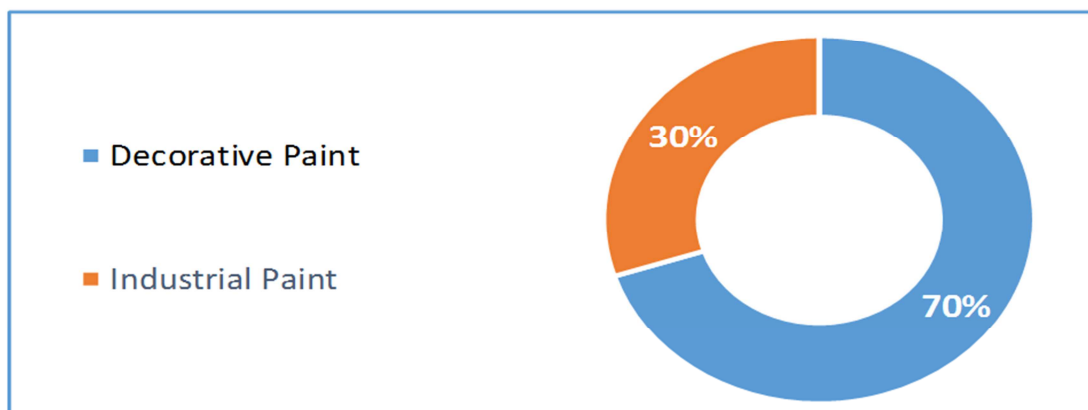


Figure 2. Total Domestic Demand Size ~ USD 6 billion.

The growth of industrial paint segment that constitutes 30% of the market size, is highly dependent upon automotive sector. The sector has been leading consumer of the industrial paints with 45% of the demand coming from it.

### 3. GST IMPACT - Outlook

Implementation of Goods and Services Tax (GST) hasn't had any significant impact on the paint industry. The paints are categorized in 28% GST slab which doesn't really differ from the existing rate that the industry is paying at present (with VAT, excise and VAT on excise all put together).

“India’s GDP growth is expected to recover from demonetization and GST implementation effects to resort to 7% basepoint and likely to sustain the fortunes of construction industry” [9]

So, it is neutral situation (no-loss no-gain) for the paint industry post GST commissioning. In addition, the industry is highly organized with unorganized players comprising 20%-25% of the market. As such, it will benefit the organised players (even if marginally) and they can expect some market share gains.

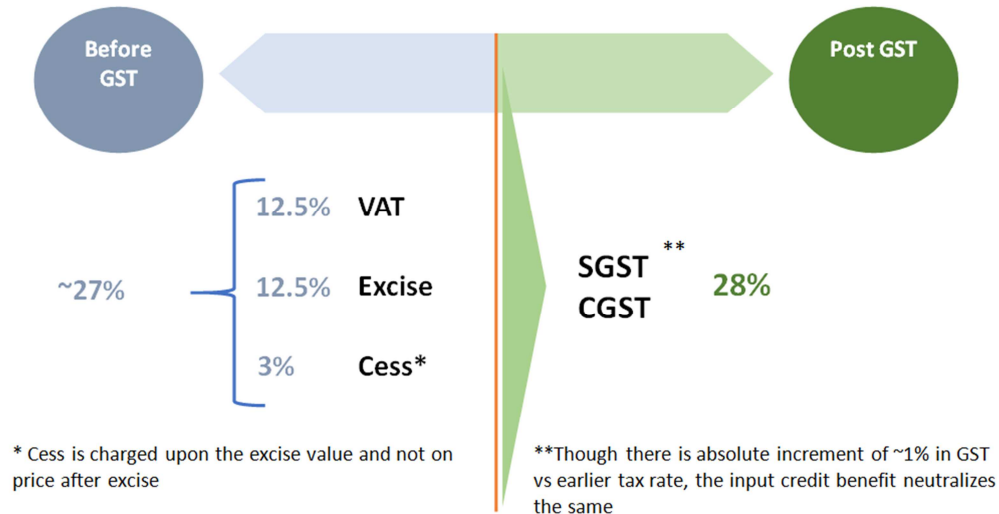


Figure 3. GST Structure in Paint Industry.

### 4. Key Market Players – Opportunity Landscape

The leaders in the organized paint market comprises big names such as Asian paints, Kansai Nerolac, Berger Paints and Akzo Nobel to name a few. While in the unorganized segment (that is ~20%-25%), there are about 2,000+ players having small to medium sized paints manufacturing facilities.

Asian paints have been the market leader and controlling ~30% market share, followed by Kansai Nerolac, Berger and Akzo Nobel.

The major players are Asian Paints, Goodlass Nerolac, Berger, ICI and Shalimar. Recently, world leaders like Akzo Noble, PPG, DuPont and BASF have set up base in India

with product ranges such as auto refinishes powders and industrial coatings. Kansai Paints of Japan, which entered into collaboration with Goodlass Nerolac in 1984, is now the holding company for Goodlass Nerolac with 64.52% equity holding. PPG has a joint venture with Asian Paints to manufacture industrial coatings. Jenson & Nicholson and Snowcem India are no longer active players because of dwindling sales in recent years.

Table 1. Key Market Players market share (%).

S. No.	Top Key Players	Market Share
1	Asian Paints	30%
2	Kansai Nerolac	20%
3	Berger Paints	19%
4	AkzoNobel	12%
5	Others	19%

S.No	Company Name	Number of manufacturing Plants	Turnover (in USD)	Sales growth over 2016-17 (in %)
1	Asian Paints	26	USD 2.3 Bn	8.5%
2	Berger Paints	14	USD 0.7 Bn	8%
3	Kansai Nerolac	11	USD 0.5 Bn	7%
4	Akzo Nobel	4	USD 0.4 Bn	7%

Figure 4. Key players sales growth (%).

#### 4.1. Asian Paints

Asian paints will be investing about USD 153 Mn towards two new production facilities being setup at Mysuru

and Vizag in the Southern part of the country. The first phase of both the plants is expected to be commissioned in FY 2018-2019 [11].

### 4.2. Berger Paints

Berger Paints has recently entered into two MOUs with two foreign companies – one with Promat International Ltd. (Belgium) for cooperation in the field of passive fire protective coatings and the other with Chugoku Marine Paints Ltd. (Japan) for co-operation and collaboration in the field of marine and related industrial paints [12].

### 4.3. Kansai Nerolac

To boost the production capability, Kansai Nerolac Paint Ltd. is creating new production facilities at Saykha in Gujarat, Amritsar

in Punjab and Vishakhapatnam in Andhra Pradesh [13].

### 4.4. AkzoNobel

In December 2016, with an investment of ~ USD 5 Mn, AkzoNobel India commissioned a specialty coatings production facility in Noida that has annual manufacturing capacity of 600 kiloliters. In the same month, it also bought BASF India’s industrial coating business. The company is setting up a facility in Mumbai to expand its manufacturing footprints. AkzoNobel India has six manufacturing facilities in India in the cities of Navi Mumbai, Gwalior, Raigad, Hyderabad, Bengaluru, and Mohali [14].

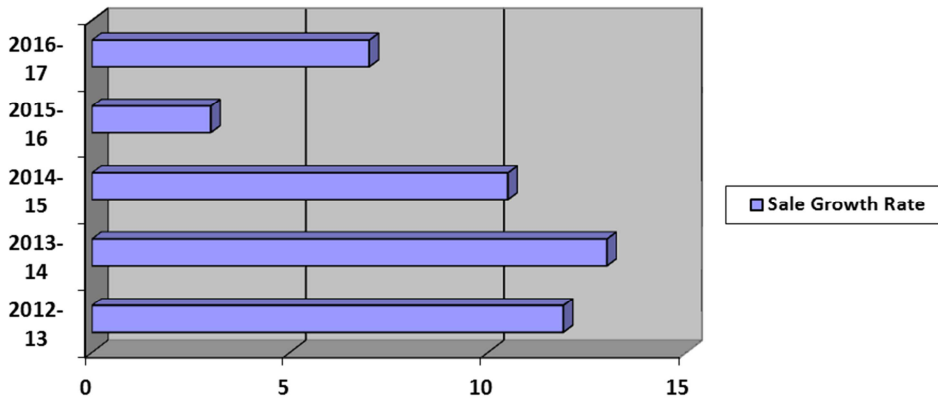


Figure 5. Sales growth rate (in %).

In the financial year 2016-17, sales of the 6 paint companies in our sample increased by 6.5% on a YOY basis compared to 3% growth reported by the industry in 2015-16. The increase in sales in 2016-17 was on account of various product-mixes offered by the industry. However, sales growth was impacted in second-half of the year due to demonetisation announced by the government in November 2016.

The paints industry is expected to rise by 8-10% in the financial year 2017-18 backed by a growth in its two segments, decorative and industrial. The roll out of Seventh Pay Commission and salary revisions by States is expected to result in increase in income thus supporting the demand for decorative paints. In addition to this, normal monsoon is likely to result in rural growth which, in turn, is expected to aid the consumption of decorative paints in rural areas. Also, the festive season is anticipated to support the demand for paints. Further, roll out of schemes like Housing for all and Pradhan Mantri Awas Yojna (PMAY) for affordable housing is also likely to help increase consumption of decorative paints going forward.

The demand for industrial paints is also likely to grow backed by an expected improvement in industrial output. In addition to this, CARE Ratings expects 10-12% growth in the two-wheeler segment (accounting for about 80% of the

automobile industry’s sales) which is also likely to augur well for the paints industry. The automotive segment drives the demand for industrial paints as it forms a significant component of industrial paints.

While the outlook for demand remains positive, concerns for paints industry would remain on the raw materials front if the YOY growth in crude oil prices continues. The Brent crude oil prices averaged at USD 50.9 per barrel during April-September 2017, implying a y-o-y increase of 11.5%.

## 5. Implication for Paint Industry Based on the Findings of the Research

Provide the cleaning solution which is suitable for different type of paints to remove the dirt on the wall at the same time the wall should retain the paint. Any fluid like ink, pigment or the one which leaves shabby scars on the walls presents or makes the walls to look dirty. If the stained spot is cleaned with soap or any other stain remover, it leaves some dirty mark on the wall. It may even remove the superficial layer leaving behind the shade of an earlier paint to be visible. To mask the scars the wall may have to be repainted. Painting only a small spot may not suit the whole wall. In that case whole room must be repainted. The paint companies know

better about the formulation and the chemistry of the paints.

Most of the paint companies do not contact the end user or the house owners to get the feedback on the paints used. Normally, when the dealers receive the complaints, they will be indifferent and ignore the complaint. Very rarely the complaint reaches the company. There should be routine method by which companies receive the end user's opinion and if there is any problem, the efforts have to be made to get to the roots of the problems so that appropriate steps can be taken to avoid problems in future and also to avoid spreading of the wrong message through the grape wine [5].

There is need to segregate R&D activities, Repairs and maintenance activities and activities concerned with total quality control. It is universally accepted that Quality of the goods and services offered by a company is very important to make the company successful or unsuccessful. Quality is the result of dedicated R&D efforts and efficiency. It is observed that some paint companies, because of excellent R&D facilities are enjoying the competitiveness and are successful. The study indicates that in the case of some companies though the R&D departments exists with experts who can help in bringing out new products and continuously adopt new technologies to qualitatively improve the existing products, most of the time they are busy looking into the production related problems or field complaints. To attain Competitiveness, they need to concentrate on only R&D activities and leave it to the technical support team to attend to regular production related issues.

The entry of international giants into the country may lead to the activities like Mergers and Acquisitions. The initiations are already come to light with Akzo Nobel, one of the leading paint companies in the world which has bought ICI paints. The huge manufacturing facility, technology, network and finance will all help consolidation of business. The Indian paint leaders can think of coming together to face the challenge.

The retailing with respect to paints can mean penetrating into the rural sector. 'Retail' is the important part in the recent years. The retail concept is in vogue in the present-day business especially in the urban markets. The paint business has limitations of its own. Notwithstanding this, the retail concept can be redefined for paint business in a different form for Indian market [3].

Many advanced countries the usage of solvent based paints is not permitted. Usage of solvent based coatings results in gallons and gallons of solvent just getting escaped into the atmosphere by way of oxidation and evaporation. These solvents are all crude based ingredients. The solvents have a temporary life and serve only as a medium to disperse the solids and the pigments in the paint. While the paint film

dries, the solvents escape to the atmosphere only to add air pollution. This ultimately results in the advanced problems like global warming and acid rains etc. The paint producers can bring in the innovative water-based paints like other countries to avoid future problems. No doubt the synthetic enamels and the industrial paints of different applications like heat resistance and UV resistance paints need the solvent ingredients. But nothing like saving the earth to save ourselves. This not only helps with respect to the health of the individuals but also the financial health of the country by minimizing the foreign exchange.

Cost management is very important in a business. However, once the cost controls are achieved the organizations need to strengthen the "key Success factors" because of which one can attain competitiveness and overall success. It is observed that inventory management is very crucial in paint business especially decorative paint business. The efficiency of the supply chain can be achieved through proper integration of the dealers' indents and the supply points.

The painting cost (labor) is expensive than the cost of the paint itself. This may be accepted by the consumers at the time of constructing of the new house. Notwithstanding the cost factor, the painting is a troublesome and a hassle. This is more pertinent when it comes to repainting. Hence, there is an absolute need of paint producers to offer paints that can be sprayed and easily handled by a common man. The spraying machine can be even made available for hiring at the dealer counters. A user manual can also be given with the details to make it more users friendly.

Some paint companies are century old in their operations in India. The long journey in the business path might have brought many a laurel. It may be for introducing a system or a paint type for the first time. It may be very existence in business for many long years. This can be made use of to reinforce the strength into the brand or the marketing methods.

The organized companies can tie up with leading painting contractors to implement the apply and supply system. The consumers may feel relaxed about the type of paint as well as quality of application. This will also ensure definite sales and at the same time improve brand awareness.

The interaction with the experts in the industry reveals that the organized paint companies have been relatively strong areas. For example, Kansai Nerolac Paints is strong in automotive paint business. It has the collaboration of Kansai of Japan and gets all the technical expertise from their principals. They have the capability to come out with the new systems and products. Similarly, Berger Paints India Limited is strong in Protective coatings, Asian paints Limited is very strong in the decorative segment and SPL has the advantage

of can coatings. This indicates that these companies can think in terms of being focused in a segment. This will lead to developing the “Niche” market

## 6. Key Industry Drivers

- 1) Government reforms/stimulus to boost economy is going to have a bigger impact on infrastructure and construction industry, thus creating high demand for paints.
  - a) For instance, Pradhan Mantri Awas Yojna (aims at providing fiscal incentive to the people) is a boost for housing sector, creating demand for decorative paints.
  - b) The Indian real estate market is expected to touch ~USD 250 Bn by 2020.
- 2) Increased industrialization under “Make in India” and expected traction in automobile sector would propel the industrial paint segment
- 3) Automobile segment generates over 45% of the demand of industrial paint, and growth in automobile sector is expected to be ~5% YoY. The sector would remain one of the biggest consumer of industrial paints and provide sustainable business opportunities.

“High competition in the organized market with small unorganized players catching up fast in terms of technology and quality of paint, leaving little room for suppliers to bargain in the market”

## 7. Conclusion

In India, rapid urbanization and industrialization would lay the path for new and existing players in the paint market. Urban Population would nearly double in the coming decade, which will directly impact the demand for decorative paints.

Rapid Industrialization is putting India on the fore fronts of transforming economy; With the increased inflow of capital from foreign and domestic investments in order to develop infrastructure and business facilities, the paint industry would surely reap the benefits out of it. Paint is a highly raw material intensive industry and employs over 900 different raw material and their grades. Thus, companies look to invest constantly in R&D to address factors such as performance, cost reduction, new application and shades development. It will also be very critical for Indian companies to curb their manufacturing cost (which is higher by 20%) than their foreign counterparts to remain competitive.

There is a significant market opportunity for the new entrants who are planning to strategize for India entry, but technology can be a key differentiating factor to beat the existing

competition.

The demand for paints is likely to grow on account of an expected increase in income backed by the roll out of Seventh Pay Commission and salary revisions by States, normal monsoon, festive season, scheme for affordable housing. In addition to this, a likely improvement in industrial output coupled by an expected growth in automotive segment will aid the demand for industrial paints. The paints industry thus is expected to grow by 8-10% in the financial year 2017-18. While the outlook for demand remains positive, concerns for paints industry would remain on the raw materials front if the y-o-y growth in crude oil prices continues.

The implementation of GST is unlikely to have caused any major disturbances in demand for paints though it is believed to have resulted in de-stocking of paints. Regional weather conditions are also involved in the demand for decorative paints, where consumption peaks around festive time.

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