India's paint industry expects strong future

After a slow period over the past couple of years, the paint industry in India is starting to return to healthy growth. The growth is primarily being fuelled by the automotive and construction industries. These trends will particularly benefit the four biggest players in this sector, which will increase their dominance in this market.

Ashok Saini.

The paint industry in India can be traced back to the setting up of a factory by Shalimar paints in Calcutta (now Kolkata) in 1902. Until the Second World War the industry consisted of small producers and two foreign companies. After the war imports stopped which led to the setting up of manufacturing facilities by local entrepreneurs. However foreign companies have a continued presence in India. The early decades of the paint industry in India saw complete dominance by British paint companies like Goodlass Walls (Now Goodlass Nerolac), ICI, British Paints (Now Berger Paints), Jenson and Nicholson and Blundell and Eomite.

Today there are 14 players in the organized sector, while in the unorganized there are over 2000 firms. The organized sector holds 70% share of INR 60 billion industry size (2002-03; 1 EUR = approx. 54 INR) but the remaining 30% is with the unorganized. Today the major players are Asian Paints, Goodlass Nerolac, Berger, ICI, Shalimar and Jenson and Nicholson. Recently world leaders like Akzo Nobel, PPG, Dupont, BASF have also set up bases in India with the help of product ranges like auto refinishes, powders and industrial coatings. Kansai Paints of Japan entered into collaboration with Goodlass Nerolac in 1984 and now holds over 65% of the company. PPG formed a joint venture with Asian Paints to manufacture industrial coatings.

Third fastest growing industry in India

In the ten years preceding the year 1999-00, helped by a growing economy, the paint industry recorded a healthy growth of 12-13% (CAGR). This was partly as a result of the government's initiative to reduce excise from a staggering 40% in the past to the present levels of 16%. It is only in the last two years that the growth has been more restricted (with 3% in 00-01 and 9% in 01-02). Until 99-00 the paint industry was the third fastest growing industry in India. Over the past five years industry has witnessed a growth rate of little over 10%. However, in the current year the growth rate has improved to 10-11%. Decorative paints account for 77% (roughly INR 32.50 billion in organized sector) of the total sales, while the industrial sector accounts for the remaining 23%. This trend is the reverse of what is seen in countries with higher levels of industrialization where 50 to 70% of business comes from the industrial segment. There is likely to be a shift towards industrial paints in India too, but at a slower pace. The per capita consumption of paint in India is 650 to 700g compared with 31kg in the USA. The consumption is linked to affordability so with the lower per capita income in India the lower per capita consumption is not a surprise.

Sales in 2002-03 for some major companies is given and their market shares can be compared (Figure). Asian Paints is the market leader, having a gross paint turnover of INR 17 billion and a market share (MS) of 40.4%. It's a 100% Indian owned company. Its MS in the decorative sector is a staggering 50%.

Goodlass Nerolac (GNP) was established in 1920 and was the market leader until 1967 when lost its position to Asian Paints. Now it is the second largest player with an annual turnover of INR 7.9 billion. It also has business lines under its associate companies where the total annual business is INR 660 million. The combined MS they enjoy is 20.4%. GNP enjoys a MS of 14.2% in the decorative sector but is a market leader in industrial paint with a 42% share. Its share in automotive coatings, which accounts for roughly 50% of the total industrial business, is 65%. It is also the market leader in powder coatings, through its associate company Polycoat Powders, which has a 24% MS. GNP has an equity participation and technical collaboration with Kansai Paints.

Berger Paints is the third largest player with a MS of 17%. It belongs to Dhingra's group and has attractive products in Kolkata. It enjoys a 14.8% MS in the decorative sector. It has international links with nippon Paint, Japan, and Orica, Australia. ICI, which has headquarters at Gurgaon, is the fourth largest paint company in India and is owned by ICI, UK, which is one of the world leaders. It enjoys a 10.3 % share overall and a 13.3% MS in the decorative sector. It leads in automotive refinishes. ICI has manufacturing facilities at Vashi, Hyderabad and Mohali.

Successful Asian Paints

Most of the organized companies have national presence with multi location manufacturing facilities. The companies in the unorganized sector are mostly regional - spread in and around their manufacturing facilities. In the early years even the companies in the organized sector restricted their operations to the main cities. Asian Paints started its nationwide marketing with a focus on all interiors/ small markets. This, obviously, necessitated the creation of a vast marketing network and various distribution points across the country. This strategy, although ridiculed by bigwigs in the initial period, paid rich dividends to Asian and made it reach its current market position. The company also had the advantage over its competitors of being an Indian firm. Most of the other players are FERA companies and some come under MRTP like Goodlass Nerolac as part of TATAs (leading Industrial group in India). These companies were therefore not allowed to increase their production capacities, which lead to their stagnation. In contrast, Asian, being an Indian company, was allowed to expand. With liberalization these shackles were removed and other companies could expand too.

Clear shift from solvent to water based

Although the decorative product ranges are very similar for the different companies the industrial range is more customized and guided by the technology support provided by the collaborators. In the case of decorative products the technology has been perfected over the years and the products can be divided on the basis of interior and exterior application or in the categories like water base and solvent base. Out of the total volumes sold solvent based enamels have a 25% share, 30% comes from distempers, 7% from interior emulsions, 5% from exterior emulsions, 2% from wood finishes, 12% from exterior cement paint, 8% from primers, 4% from auto refinishes and the balance is from miscellaneous products. The fastest growing category is exterior emulsion, fuelled by high growth in the construction industry. While solvent based enamels are still popular in...
India, elsewhere there is a clear shift from solvent to water based glossy enamels. India will take some time before this change is accepted on account of three hurdles: the cost (water based is expensive); the low level of gloss in water based enamels; and the psychological barrier that water based can not be superior to solvent for protecting wood or metal surfaces.

**Multinational producers strong in industrial coatings**

Some international players are already present in India, but mostly for industrial coatings. These include Akzo Noble, BASF, PPG, ICI (decorative) and Dupont (auto refinishes). A few other players are present through collaborations. For the decorative range of products it is difficult for international companies to set up on a stand alone basis because of existing barriers like the strong network of established players, the need for a brand image, the range of Indian products already required and the available distribution logistics. For industrial products however this may not apply. Based on their tie-ups in home countries and their OEM customers the required range can be made and sold. A radical and unique range of products, which is properly conceived and marketed for the Indian markets and supported with machines, can give entry to niche players.

The industry is riding high on the growth in automobile industry, hectic constructions, improving infrastructure and an overall feel good factor in the industry. The GDP is projected to grow by over 8% in the current year so a growth of 10-11% in the paint business is not a surprise. Considering the sectors separately, at the end of the financial year 2003-04, the growth will be 17-18% in the case of industrial and 9% in the case of decorative. The main companies are also seeing strong growth and taking market share from the smaller players.

The automobile industry has been doing remarkably well which is to the advantage of the market leader in the segment, Goodlass Nerolac. The last two years have been equally good for the construction industry, thanks to the boost given by the Central Government by exempting income tax on the interest from housing loans. In India 30% of this business is estimated to come from fresh construction while the rest is accounted for by maintenance or re-painting.

**Good prospects for the future**

The auto industry has predicted a CAGR of 8-9% for the next five years from the current year growth levels of 27.4% for cars and 8.9% for two wheelers. The construction industry is likely to do well with its present growth rate of 35%. In light of this and the continued feel good factor for the overall economy the paint industry is likely to see a 9-10% growth every year for the next five years.

New products are also likely to be launched, some for application in special areas, and companies will add value to customers by offering a variety of finishes through specialized and trained applicators. There will also be more options for colours and finishes for wood applications through the tinting machines. The trend for water-based coatings is likely to grow for both for industrial and decorative applications. India is still some time away from the DIY concept because labour is available cheaply but exclusive retail chain of stores sponsored/run by paint companies will become a reality.

India's paint industry has progressed well and is likely to be influenced more by the changing global scenario. New technologies, new innovative products, new associations, consolidation of industry and failure of poor performers is its likely future. Ultimately there will be four key players operating in this market.

**The author:**

> Ashok Saini is the vice-president of Special Projects for Goodlass Nerolac Paints Ltd. He has been associated with the paint industry for the last 27 years and has worked at various places and positions in India with Goodlass Nerolac, primarily in sales and marketing, handling both decorative as well as industrial business.
The market shares of the six biggest paint companies