

India's Growing Economy Leads to Healthy Market for Paint and Coatings



by Cynthia Challenger
JCT CoatingsTech
Contributing Writer

With per capita paint consumption currently at one of the lowest levels in the world, India presents the coatings industry with a vast market potential. Both domestic and international paint manufacturers hope to leverage that potential into real sales value as consumers in the country become more able and willing to buy their products. The Indian market differs in a number of ways, though, from markets in other emerging regions as well as developed countries. New entrants will need to be aware of these unique characteristics.

Estimates for the value of the Indian coatings market differ depending on the source. Market research firms put the total value of sales at \$2.4–\$2.7 billion dollars, while domestic paint manufacturers believe the figure to be as much as \$3.2–\$3.5 billion. Volume consumption is estimated to be around 900,000 to 1,000,000 tonnes per year.

Most agree that the market has been growing at about 15% per year in both value and volume terms and that a rate of 12–15% should be maintainable for the foreseeable future. In general, sales of coatings increase at a rate approximately 1.5–2 times that of the overall growth rate for the Indian economy.

In developed countries, and even in China where tremendous industrialization has occurred, the market is typically divided evenly between industrial and architectural coatings. In India, however, significant levels of industrialization only began to take place in the past five years or so. As a result, the country has one of the highest percentages of decorative paint use in the world, according to Dr. Terry Knowles, business manager at IRI, a division of Business Research Group (UK) Ltd. Architectural coatings, in fact, account for 70–80% of the total market.

As industrialization continues, though, industrial coatings are anticipated to take an increasingly larger share of the market. Sales of automotive OEM coatings are the fastest growing of all industrial coating types. This is not sur-



prising given the rate at which incomes are rising and the increasing size of the middle class. These factors are also driving the strong growth in the decorative segment. "The growth in the construction, housing, and agricultural sectors, and the growth in disposable income through creation of new white collar jobs, is driving the architectural coating business in India," remarks Ashok Saini, vice president—special projects with Kansai Nerolac Paints Ltd (KNP).

The leading paint manufacturers in India are well positioned to take advantage of the situation.

"Organized" companies, or those that publicly report their activities, dominate the market, but there are 2000–4000 "unorganized" firms, or smaller, often regional players, competing with low-cost products. These companies contribute about one-third of total industry sales. The four top companies—Asian Paints Limited (APL), Kansai Nerolac Paints Ltd. (KNP), Berger Paints India Limited (BPIL), and ICI (AkzoNobel) India—account for more than 80% of sales of organized firms and about 65% of all manufacturers combined.

These major firms have established a presence in the 25,000 paint shops spread across the country. "India is unique in that distributors are very uncommon, and the do-it-yourself (DIY) market is practically non-existent," notes Dan Murad, president and CEO of the ChemQuest Group, Inc. Most work is completed by skilled painters, primarily because labor is inexpensive, but also because there is a very high level of surface preparation required.

As a result, the channel to market is through paint stores that sell many different brands and have installed the necessary tinting systems for each brand. In order to support this system, paint manufacturers must maintain very large inventories in order to keep all locations well stocked. The majors have established manufacturing facilities in the four main regions within the country to help address this issue.

"One of the main challenges we face is handling a vast number of SKUs to serve a large base of retailers/customers that are geographically spread out," says Saini. "We need to make sure that these multiple sales locations do not ever have a shortage of material. Location of plants near the customer base becomes crucial under these conditions."

In addition to the lack of a DIY segment, the high volume of low-cost distempers still sold in India further differentiates this coatings market from others around the world. About 200,000 tons per year (approximately 20% of the decorative sector) of these animal caessin-based products are sold at less than \$0.50 per pound. They still find widespread use in rural areas. Lime powder also continues to serve as a paint substitute in the poorest sections of India. And large quantities of solvent-based alkyd enamels are still used, typically in smaller cities and towns.

Movement away from these products has begun to occur, though. Distempers have largely been replaced, particularly for interior applications, with aqueous acrylic emulsions. The leading paint companies are working to educate consumers about the advantages of waterborne coatings, particularly with respect to the enhanced protection they provide. "Our efforts are starting to pay off," says Ashwin Dani, vice chairman and managing director, Asian Paints Limited. "Many in the growing middle class now recognize the superior quality and improved aesthetics that can be achieved with acrylic emulsions, and they are willing to pay a slight premium for these products."

Saini adds that emulsion sales will increase further as the supporting infrastructure is installed. For example, color dispensing machines are now available in about 50–60% of the paint shops, making it possible for consumers to select from a wide variety of colors.

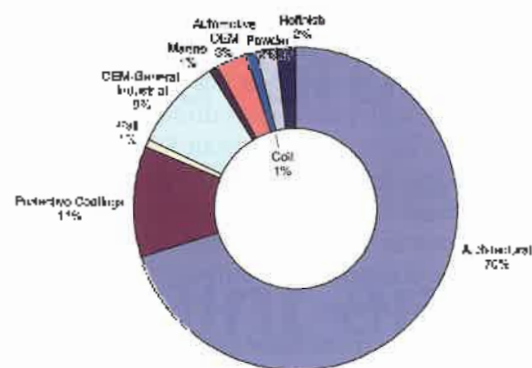
Price sensitivity remains an issue for many in India, though, and will be for some time. Manufacturers recognize this truth and are working to make newer technology available to everyone. "At KNP, we have introduced emulsions at different price points to suit the pockets of different end consumers, thus making the transition from low-end products to emulsions easier," explains Saini.

The shift to water-based paints reflects a growing interest in premium products. "Clearly there is a strong change in terms of consumer preferences and tastes," notes Dani. "Many more people are traveling around the world and being exposed to other cultures and ideas for home décor. They are bringing this knowledge back with them and applying it to their own dwellings."

Preferences for a glossier look, access to an expanded color palette that includes darker shades, and the desire to create special effects are leading to a growing demand for higher end formulations. Many companies are introducing paints designed to satisfy this growing need of consumers to express themselves through paint. Formulations specifically designed for creating special effects are gaining in popularity.

Royale Play from Asian Paints is one example. It is a collection of innovative and ready-to-use special effect finishes for interior walls that has proven very popular.

Indian Paint Market 2007: Breakdown by Coating Type



Source: The ChemQuest Group, Inc.

The range has been further strengthened with the addition of Royale Metallics and other variants in 2007. Impressions Metallic from Kansai Nerolac is another special effect coating. With this emulsion, using different application tools, a variety of finishes can be obtained on interior walls. Asian Paints has also introduced a new range of Kids World offerings, which includes a "chalk board" product that allows kids to scribble on the walls with chalk without damaging it; or glow products that absorb light in the day and radiate it at night. Impressions Disney Emulsion has also been very popular. It comes as a kit with application tools, stencil, and set of colors necessary for creating a specific design. This product is just one of many introduced to the market recently to meet a growing interest in creating "themes" with paint. Impressions Marble Stucco Finish was also launched by KNP in 2007 for exterior applications.

The major producers have also worked to develop lead-free formulations for their decorative coating products. While there are no government regulations covering the use of lead in paint, KNP, Asian Paint, and other companies have voluntarily eliminated lead as an additive in order to improve the safety of their paints.

The desire to create personal spaces is growing along with the increase in more permanent housing. The concept of home mortgages has been around for only about four to five years in India. As the percentage of the population living in temporary or semi temporary housing diminishes and more people become homeowners, the demand for unique coatings products will become only greater.

As this trend continues, consumers are becoming more involved in the paint buying process. Asian Paints has launched Samplers, an innovation in the paint industry, that allows consumers the freedom of trying out a small sample of paint in their home, shop, or office before committing to a particular color. "Asian Paints Samplers are designed to increase consumer involve-

ment in the shade selection process," says Dani. Kansai Nerolac is creating "Experience Centers" where customers are given the opportunity to touch and feel the product and experiment with different shades and finishes. "Visualizing the installed package helps the customer envision the look they will see in their own home and makes it easier to select the right color/finish combinations," Saini believes.

Earlier this year, Asian Paints also introduced Color Next, which provides consumers with color guides and décor booklets to help them make better choices about color. The company is also expanding its Home Solutions offering, through which it provides painting services (outsourced to skilled painters) to consumers. A warranty for the paint is included. Asian Paints Home Solutions is now available in 13 cities throughout India. Similarly, KNP offers its Nerolac Home Stylers service in eight major cities.

Innovative ideas for servicing customers and with regard to product development will be important for paint manufacturers in India as they are for producers in other parts of the world. Differentiating through technology advances and proactively developing new products in order to offer contemporary formulations and finishes to the consumer will be important for success in the future. Despite the huge potential for growth, formulators face ever-increasing raw material and energy prices and, given the price sensitivity of much of the customer base, must strongly manage costs while continuing to invest in innovation.

About half of the different types of raw materials used for coating manufacture are imported into India, which corresponds to approximately 30% of raw material requirements. Most are petrochemical based, and therefore both fluctuations in crude oil pricing and changes in import duties can have a significant impact on profitability.

"Asian Paints is taking the necessary steps in sourcing and formulation efficiencies to keep the impact of rising crude and raw material prices to the minimum," says Dani.

Ashok Saini adds that it will be a challenge to manage costs in view of spiraling crude oil prices. "It is important to minimize the impact of these increases on customers. To do so requires a lot of internal working so as to bring in operational efficiencies to maintain the bottom line on one hand and competitive prices for the customer on the other."

One factor that has helped Indian manufacturers maintain a strong level of innovation and competitiveness is their willingness to bring in foreign technology through licensing agreements. "The foreign companies have benefited from this arrangement, too, gaining a means for becoming involved in this high-growth market and collecting a premium based on the level of spe-

cialist value offered by the technology they share," explains Knowles.

International players that have been involved in the Indian market for some time include DuPont, PPG, Jotun Group, and Chugoku. On the supplier side, Rohm and Haas has constructed several plants in various parts of the country. Norway's Jotun Group recently expanded its operations in India with the addition of a new production facility for both liquid and powder products at Pune in Maharashtra. The company also plans to open more outlets, and will have a total of 36 by the end of 2008.

Nippon Paint entered the Indian coatings market in 2007 and is focusing on the decorative segment. "We are focusing on the introduction of high quality products for various applications," notes Muthukumar Iyer, product manager for architectural coatings. "We are a member of the Green Building Council in India and strongly believe that customers are actively seeking more environmentally friendly products." Currently, the company is launching a 3-in-1 zero-VOC, odorless antibacterial paint. By the end of the year it will introduce lead-free coatings for wood and a textured formulation for exterior application.

Nippon products are imported into India at this time, but the company is constructing a facility in the country. Iyer anticipates it will be operational by the end of the fourth quarter of 2008. "We have begun with a focus on the southern province, and now are beginning to reach out to markets in the West and the North. Despite the challenges of higher raw material and energy costs, we expect to grow our business in India quite a bit in 2008," he states.

Sherwin-Williams chose to acquire an existing business as its strategy for entering the Indian coatings market. The company purchased Nitco Paints in 2007, a Western-based manufacturer and distributor of specialty exterior paints and coatings designed for commercial and public building applications. Sherwin-Williams will maintain the existing organization and manufacturing facility, while enhancing the product range, introducing more technologically advanced products, and expanding the distribution platform.

Established players are expanding as well. Kansai Nerolac Paints (KNP) will add a fifth plant for production of water based architectural paints at Hosur in Tamil Nadu and also expand its waterborne decorative paint capacity at its existing facility in Lote Parshuram, Maharashtra. Industrial coating capacity will be expanded as well at its Bawal plant in Haryana.

With the help of parent company Kansai Paint Co., located in Japan, KNP has introduced several new products for the industrial coatings market. First is an acrylic cathodic electrodeposition coating for motorcycle

frames that acts as both a primer and top coat. KNP has also introduced a wet-on-wet system for passenger vehicles, allowing for application of the base, intermediary, and top coat with just one pass through the oven.

Asian Paints commissioned a polymer block at its Sriperumbudur plant and is expanding production at the site, with new capacity to be onstream by the first quarter of 2009. The company also purchased 130 acres of land at Rohtak in Haryana and plans to build a new facility with initial capacity on stream by early 2010.

On the industrial side, APPG (a 50:50 joint venture of Asian Paints and PPG Industries, USA, for automotive coatings) has acquired the advanced refinish business of ICI India and commissioned a manufacturing facility in Chennai in March 2008. New powder coatings production lines were also installed at Asian Paints' Sarigam plant in Gujarat. In addition, the company has facilities for exclusively manufacturing powder coatings at Baddi, Himachal Pradesh, and Taloja, Maharashtra.

Berger Paints recently announced plans to expand water based paint and resins capacity at Rishra in West Bengal and solvent-based paint production at its plant in Goa. Subsidiary Beepee Coating Private Limited is expanding its paint capacity in Gujarat. A new automotive paints facility is under construction at Pune in Maharashtra and preliminary work is being pursued on a new resins manufacturing plant in Goa. The company is also acquiring Polish external insulation and finishing systems producer Bolix SA, and may export these products to India.

The expansion activities of existing players and the entrance of new international companies underscores the belief in the industry that India presents a great opportunity for growth in the coatings sector.

"The paint industry in India has a bright future, considering the very low per capita consumption rate and the overall growth anticipated for the country's economy," asserts Ashok Saini. "In the short term we will see more players entering the retail business, which might also contribute to further market expansion. Growth will continue at 12-13% year-on-year. In the longer term, India is likely to witness a change towards modernized retail channels and mechanized application technology as the market eventually matures."

"The overall outlook for 2008-09 [in India] appears to be positive, but nevertheless challenging. High inflation, rising interest rates, volatile prices of raw materials, and ripple effect of the turmoil in the global financial markets are factors that cannot be neglected. Notwithstanding these immediate concerns, we are quite optimistic about the potential and opportunities that lie ahead in the future," concludes Ashwin Dani. ■