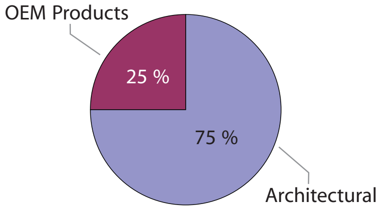
Indian paint industry

On a growth path

The paints & coatings industry in India has continued to perform well despite the downturn in the global economy. It is estimated that the industry has grown by around 17 per cent in the previous year, and it is poised to surge ahead at a growth rate of 20 per cent in the coming years, according to some observers. This is good news for paints manufacturers and raw material suppliers.

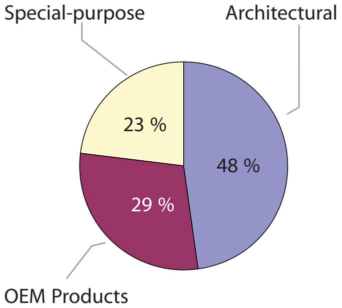
Paint market in India

Architectural paints represent about 3/4 of the market



2009 India sales = $ 3.6 billion

Paint market in the US



2009 US sales = $ 21.3 billion

Dr Mosongo Moukwa

The recent global crisis did not derail the rise of emerging economies. In fact, in some way, it accelerated the growth. Investors were too quick to conclude the crisis was global as doomsday scenarios proliferated. Most emerging economies focussed on resilient banking systems and prudent macro policies. The per capita consumption of paints in India is still low at 1 kg, while it is 51.7 kg in Qatar, 38 kg in Singapore and 25.8 kg in the US. Even China has a per capita consumption of 2.5 kg and Sri Lanka 3.5 kg.

The economic context

In contrast to the economic downturns in Mexican and Asian regions of the 1990s, this time it was imported and not of their own making. Unlike the US and much of Europe, emerging economies overcame the financial crisis in flying colours. The corporate victims of the 'great recession' were developed market icons such as AIG, Citigroup and GM, rather than China Life or Hyundai. Sales and profits of emerging multinationals suffered temporarily but most escaped the crisis without the need for intervention.

The fallout in the economic scenario caused global havoc, but emerging markets were first in and first out. China's intervention through feverish bank lending and front-loaded fiscal stimulus in effect boosted its own economy, but it also built confidence around the world, helping turnaround the investor sentiment. Policy makers in other emerging economies also stepped in decisively where needed. In the process, it became obvious that the 'Group of Seven' leading industrialised nations was simply too narrow as a forum for global co-ordination. Its replacement by the G20 was already overdue and quickly became a reality.

The growth in the emerging economies initially had a steeper drop (after a five-year rise), but they emerged from the global downturn about six months earlier than the developed world, and their equity markets have jumped more than 100 per cent from their trough during last October, outperforming developed markets by more than 50 per cent.

Market scenario

At the end of the December quarter (2009), all paints manufacturing companies made large profits. Asian Paints' domestic sales rose by 26.5 per cent; Kansai Nerolac's sales grew by 33 per cent; while Berger Paints' sales rose by 18.7 per cent. Overall, the demand has been on the rise, and is expected to continue, and all the leading companies are investing in new capacities in anticipation. Decorative markets contribute nearly three-fourth of the Rs 170-billion ($ 3.6 billion) paint industry in India, with industrial paints contributing the rest.

Paints manufacturing companies have been in this enviable position for several reasons. The country has experienced a resurgence of growth in the residential real estate and automobile markets. If this revival in economic growth is sustained, requirement for cars & homes will be robust, and rising disposable income will keep demand in the painting market high. The return of confidence is another reason, as the outlook on jobs and incomes improves. This has resulted in a major improvement in the market for repainting homes. Another factor that has helped the industry improve its margins is that the inputs used by paint companies have actually become cheaper compared to the year-end period.

The demand in the US for paints and coatings is forecast to reach $ 23 billion in 2012. Volume gains are projected to accelerate from the sluggishness of the 2002-2007 period, when the economic slowdown, combined with high raw material costs and increasingly stringent environmental regulations, took a toll on the paints & coatings industry in the US. Going forward, however, growth will be aided by an improving outlook for both construction and manufacturing activities. Architectural paints represent the largest segment of the overall paints & coatings market, accounting for approximately half of the demand in both volume and value terms.

Optimistic future

Investors have flocked back after a few months of panic in the stock markets, as these are often ahead of economic turning points as investors begin to sense that the next batch of economic and earnings reports are likely to surprise on the upside. The current enthusiasm of investors is likely to abate when the strong cyclical upturn begins to normalise again and the risks of slow long-term growth, end of intervention and less benign rates become evident.

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As soon as the sharp drop in exports reverses, central banks in emerging markets will probably tighten monetary policy, well before the ones in the US and Europe. So, now that the market prices have doubled, earnings have been adjusted upward, and valuations are no longer as cheap as they were during the downturn, there are reasons for short-term caution. Investors should not ignore the rise of emerging markets, led by the four BRIC countries (Brazil, Russia, India, China) and their long-term potential. Most of the growth in the global economy came from emerging markets even before the downturn occurred.

Outsourcing of manufacturing, IT and even research is no longer a passing fashion but an integral part of the global production chain. What is important would be the growing opportunity to tap the region's 3.5

Courtesy: NAP Painting

billion consumers. Further, one billion new consumers will double the existing consumer base within the next decade.

Emerging markets now own $ 5,000 billion in foreign reserves and are less dependent on foreign loans. They have few budget and account deficits like their counterparts in the western countries. There are a plenty of reasons for the emerging markets to be optimistic in the next 10 years.

According to India's Economy Survey for the year 2009-10, the country's economy has emerged from the impact of the global financial downturn. The GDP growth is expected to be at 8.5 per cent in 2010-11, and a full recovery would breach the 9 per cent mark in 2011-12. Further, the future of the paints manufacturing industry in India is bright. The global economic fundamentals also favour this part of the world in terms of growth, realising one billion consumers to satisfy in India alone.

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