Twitter Thread by Kirtan A Shah



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A basic primer on the Indian Paint sector

With the listing of Indigo paints, JSW entering the paint sector & now Grasim announcing to invest 5,000 cr in the sector, lets explore,
-Products
-Industry
-Company

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Lets start with PRODUCTS

India paint industry is broadly divided into two,
(1) Decorative Paints (used mainly in residential & office infrastructure)–75% of the total paints market
(2) Industrial Paints (used in Auto & other industrial uses)-25% of the total paints market (2/n)

Decorative Paints is further classified as
a. Primer & Putty–They r applied 2 the wall 2 fill the cracks in the wall & make it smooth b4 painting. It also gives a lasting effect to the paint
b. Thinner–Its mixed with the paint 2 reduce the viscosity,applying becomes easy (3/n)

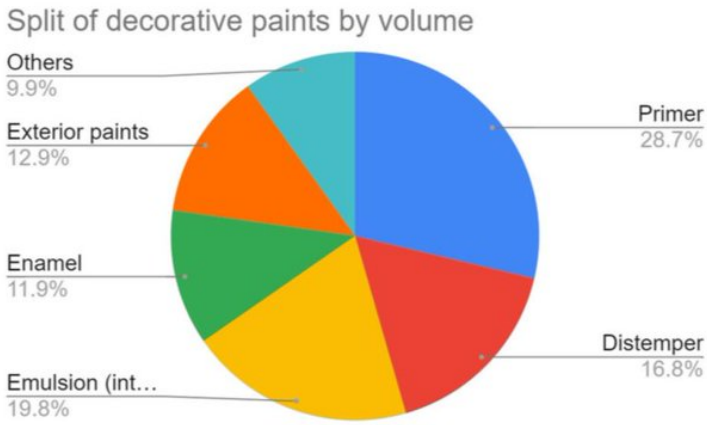
c. Emulsion Paint – Water based premium range paint mainly used in metros & large cities
d. Enamel Paint- Oil based medium range paint for smaller cities
e. Distemper–Water based paint mainly for the rural area as it can be used on the wall directly without using the primer(4/n)

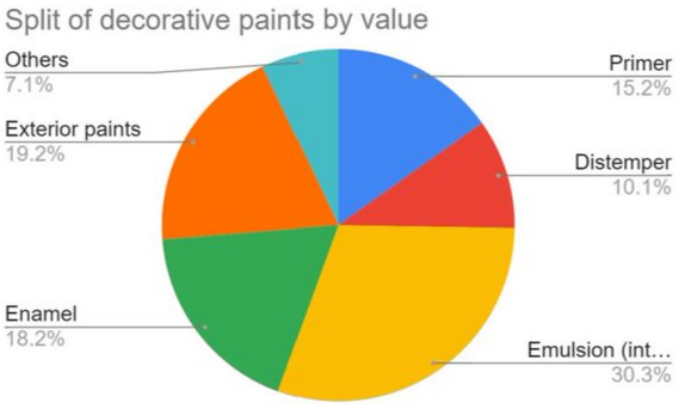
(f) Wood Coating – Used to protect furniture against moisture (5/n)

In terms of volume, the larger market is
-Primer–28.7%
-Emulsion–19.8%
-Distemper–16.8%

But in terms of value, the larger market is
-Emulsion – 30.3%
-Enamel – 18.2%

Asian paint is the largest player in the interior paint market & Berger in the exterior paint market (6/n)





Industrial Paints (B2B business) are further classified as

(a) Automotive – New car and repainting of cars market. This is 2/3rd of the industrial paint market and hence linked to the auto market very closely. (7/n)

(b) Protective, GI, Powder coating – Protective coating applied to metal to prevent rusting. Used extensively in Agriculture, Construction & Heavy Machinery business

Kansai Nerolac is the leader in this space followed by Berger. (8/n)

Paint companies r also foraying into adjacent business,
-Waterproofing
•In India only 1 house out of 10 go for waterproofing vs 1 out of 3 globally
•Market size 6000 cr and growing at 15-20% CAGR
•Key players – Pidilite – 46% market share, Asian Paint – 23% & Berger 12% (9/n)

-Adhesives
•Institutional segment is twice as big as the retail segment
•Market size 7500 cr and growing at 12% CAGR
•Key Players – Pidilite, Asian Paints & 3M India (10/n)

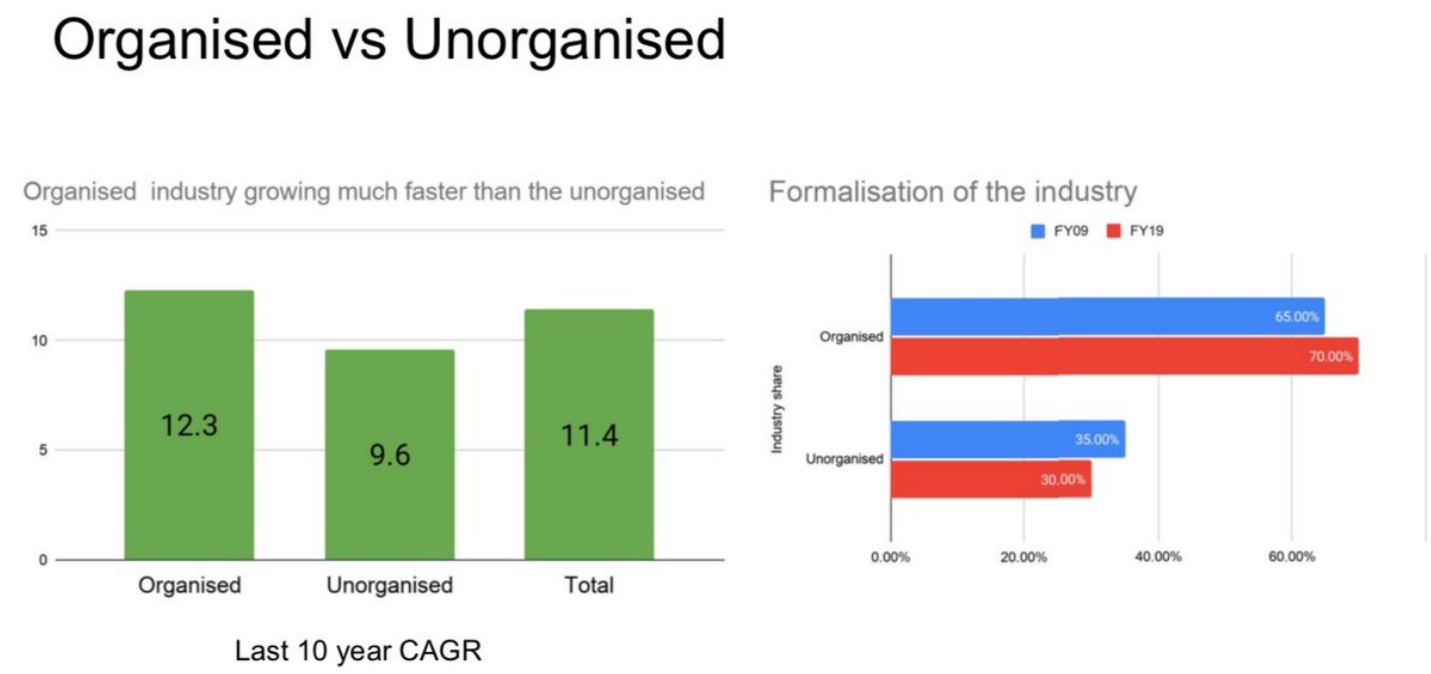
-Painting Services – Asian Paints was the pioneer & Berger started offering this lately

-Home Improvement – Asian Paints has moved into Kitchenware with its brand ‘Sleek’ and into bath fittings with the brand name ‘Essess’ (11/n)

Broader Industry aspects

- Industry is growing at 10% for the last 15 years
- There is a case for volume as well as value improvement
•In terms of volume – India produces only 5.1 Bn Litre of the global 42 Bn Litres (12/n)

•Realization/litre is only $1.4 in India vs the global average of $3.6
-Unorganised market from 35% has come down to 30% & a possibility of this moving even lower with GST reduction in the Industry from 28% to 18% (13/n)



Drivers of the Paint industry

-Families are going nuclear & moving to urban towns
-Repainting cycle has reduced from 8-9 years earlier to 5 years now
-Affordable housing & growing demand from smaller & rural areas
-Infrastructure growth (14/n)

50% of the raw material used to make paint use crude as a raw material and hence crude has an impact on paint stocks (15/n)

Moat–Dealer Network

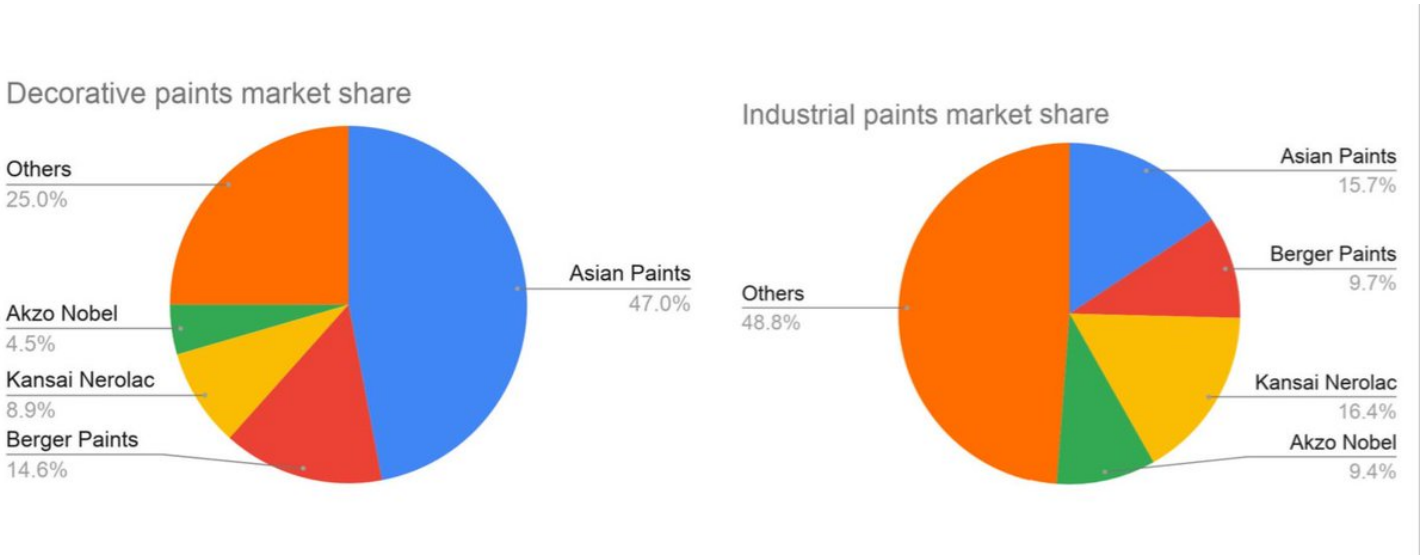
-Dealers have roughly a 400 sq ft office & paint is a voluminous business. There are 3500+ SKU's
-Deal Margins r thin
-Tinting machine,which allows the dealer to mix shades (of a particular company) 2 give the right combination 2 da client is expensive(16/n)

So the more dealership I take, the more I will have to invest in tinting machines of that company & hence installing more than 1-2 machines is challenging. Also 2 tinting machines will occupy 80 odd square feet space leading to space constrain

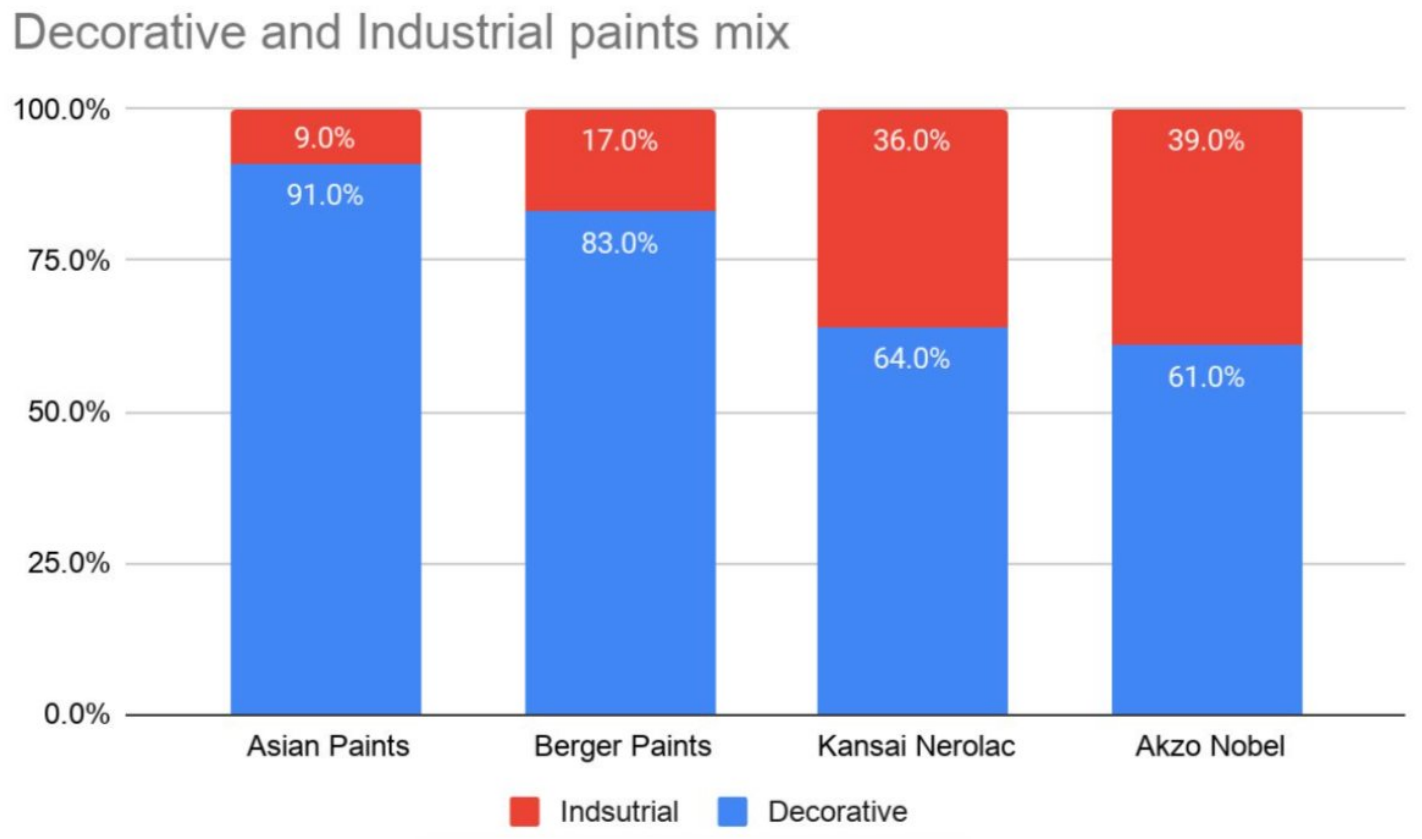
(17/n)

Dealer Network & Market share (company wise) – You will clearly see how the dealer network is a huge advantage for Asian Paints

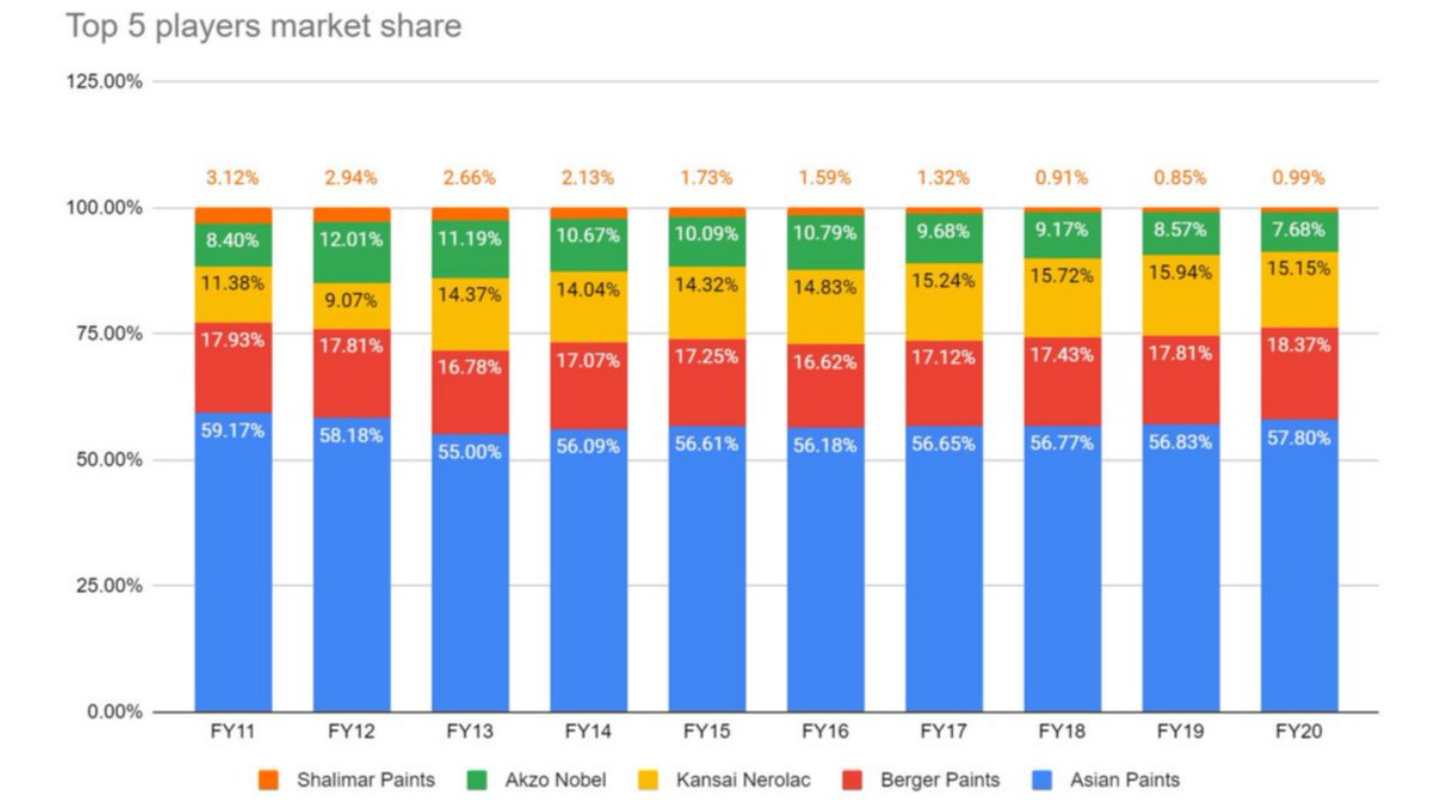
-Asian Paints – 70,000
-Berger Paints – 28,000
-Kansai Nerolac - 27,500 (18/n)



Decorative & Industrial paints mix (company wise) - Asian Paint & Berger are Decorative paints leader and Kansai & Akzo are Industrial. (19/n)



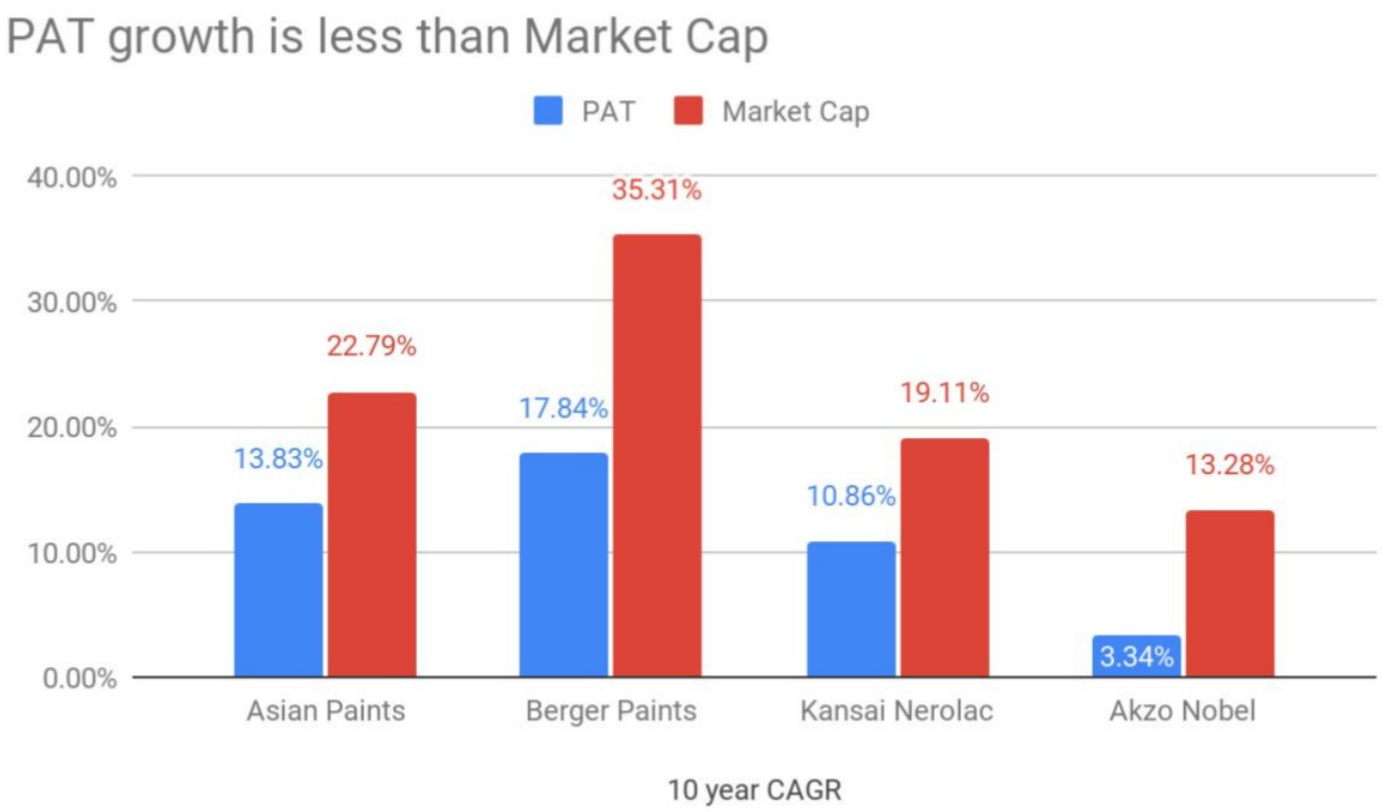
Top players by market share – Market share has been more or less flat for years and Asian Paints have been able to maintain the market share (20/n)



Top player by profitability – Interesting is 2 observe Kansai & Akso. Kansai's profitability share is smaller vs the market share as the margin in the industrial business is less. Where as Akzos profitability share is higher bcz margins r higher in Emulsion paints (Dulux) (21/n)



You would observe how the PAT growth is much lower than the Market cap growth. This is a clear sign of PE rerating because of which the stocks have gone up. (22/n)



Content credit to the very brilliant @raj_mehta89. I have just tried simplifying his content in my own way. (23/24)

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> Here\u2019s a compilation of Personal Finance threads I have written so far. Thank you for motivating me to do it.
>
> Hit the 're-tweet' and help us educated more investors
>
> — Kirtan A Shah (@kirtan0810) December 13, 2020