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## Healthy demand for decorative paints to aid topline of paints and varnishes industry

### Profit margins to expand

The paints and varnishes industry is likely to report a healthy financial performance in the quarter ended June 2023. Robust demand for paints is likely to support the industry's topline growth. Moreover, a decline in prices of inputs will aid the margins of the industry.

The industry is expected to report a mid-to-high single-digit topline growth in the June 2023 quarter. This growth will be led by both volumes and realisations.

Demand for paints stayed healthy in the June 2023 quarter due to waterproofing and repainting activities carried out before the monsoon season. Prices of paints increased by 2.5 per cent year-on-year during the quarter.

Prices of titanium dioxide, a key raw material used for manufacturing paints, dropped by more than 20 per cent year-on-year during the June 2023 quarter. With the prices of paints staying firm and input costs declining, the industry is expected to witness an expansion in profit margins during the period.

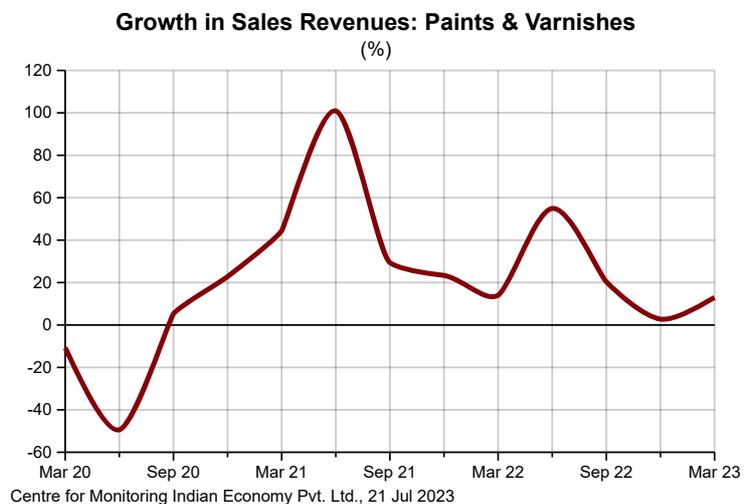
Operating profit margin of the industry is likely to expand by around 100-150 basis points in the June 2023 quarter, while the net profit margin is expected to improve by up to 100 basis points.

Demand for paints is expected to cool down in the September 2023 quarter due to a significant slow down in construction as well as repainting activities amidst the monsoon season. Prices of paints are unlikely to change during the period. Moreover, the prices of inputs will continue to stay benign. We expect the industry's margins to expand further during the quarter.

In the March 2023 quarter, the sales revenues of the paints and varnishes industry increased by a smart 12.9 per cent year-on-year. Resurgence in demand, higher realisations and a low base in the year-ago period contributed towards the double-digit growth in the industry's topline.

Sales volumes increased due to a pick-up in demand after a hiatus caused by prolonged monsoon in the December

2022 quarter. Demand for decorative paints increased due to a rise in both repainting activities and



housing sales. Residential housing sales across India increased by 10 per cent year-on-year in the March 2023 quarter, according to a report published by real estate consultant, CBRE.

Demand for industrial paints also stayed healthy due to an increase in production of commercial vehicles and passenger vehicles during the quarter. Passenger vehicle production increased 13 per cent year-on-year in the March 2023 quarter, while the commercial vehicle production grew by 6.5 per cent.

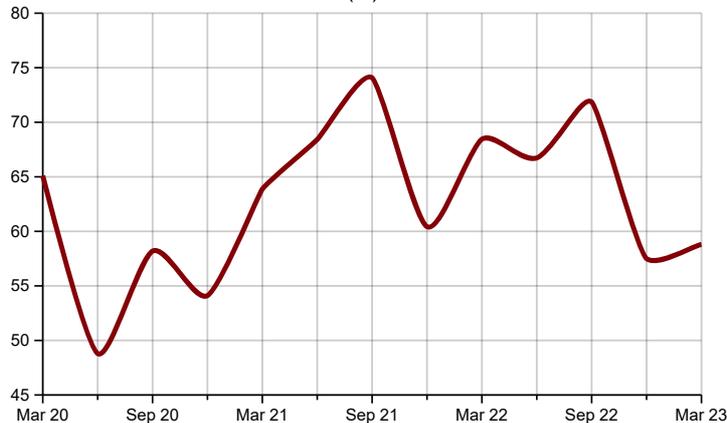
Wholesale prices of paints and varnishes increased in the range of 5-6 per cent in the March 2023 quarter. Paint manufacturers hiked prices owing to the prevailing inflation as well as to maintain the targeted margin range.

Asian Paints, which accounts for over 58 per cent of the industry’s total sales, reported a 12.8 per cent year-on-year increase in its sales revenues for the quarter ended March 2023. The company has clocked the highest ever sales value in the March 2023 quarter, with its decorative and non-automotive industrial businesses reporting double-digit volume growth. Meanwhile, the company has reported stellar performance in 2022-23 with a 14 per cent growth in volumes.

Berger Paints India’s net sales rose by 13.6 per cent year-on-year in the March 2023 quarter. The company’s decorative business reported more than 14 per cent growth in its volumes for the quarter ended March 2023. Akzo Nobel registered a topline growth of 9.7 per cent year-on-year on the back of increased new launches in the premium category and network expansion.

Kansai Nerolac Paints’ sales revenues grew by 13.6 per cent year-on-year in the March 2023 quarter. Shalimar Paints reported the highest topline growth of 28.7 per cent during the quarter. Indigo Paints and Elantas Beck registered a topline growth of 12.9 per cent and 8.4 per cent year-on-year, respectively.

**Materials & Purchase of Finished Goods as % of Net Sales: Paints & Varnishes (%)**



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Raw material expenses, the largest cost head of the industry, fell by three per cent year-on-year in the March 2023 quarter. This was mainly due to a steep fall in the prices of crude-based derivatives like titanium dioxide and monomers. Prices of titanium dioxide, which contributes about 55-60 per cent in the production of paints, plummeted in the range of 20-30 per cent year-on-year during the January-March 2023 quarter. Domestic prices of

monomers fell by more than 12 per cent year-on-year during the same period. Input prices fell due to a decline in crude oil prices. As a result, raw material expenses as a proportion of net sales contracted by almost 10 percentage points to 58.8 per cent in the March 2023 quarter.

Employee compensation expenses and other expenses increased by 11.7 per cent and 19.4 per cent year-on-year, respectively. The proportion of employee compensation expenses in net sales contracted by six basis points, while, the proportion of other expenses in net sales expanded by 90 basis points during the March 2023 quarter.

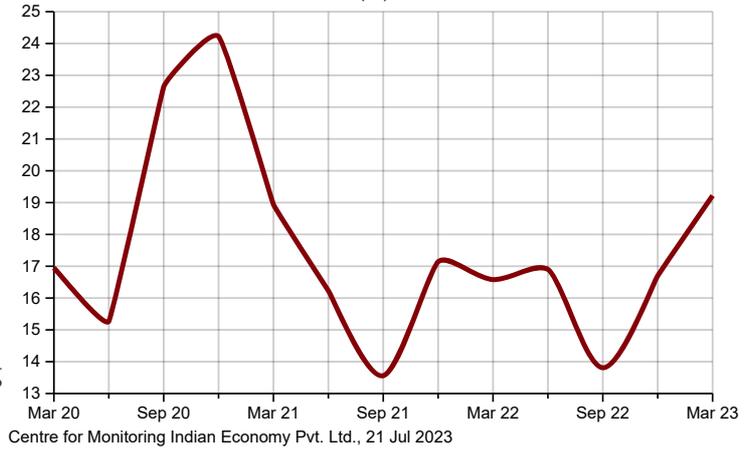
Operating expenses of the paints and varnishes industry corresponding to cost-of-goods-sold rose by 9.9 per cent, slower than the growth in net sales. Operating profit increased by a healthy 30.9 per cent

year-on-year in the quarter ended March 2023. The operating profit margin of the industry expanded by 260 basis points to 19.2 per cent.

Except for Berger Paints India and Shalimar Paints, all other listed paint companies successfully recovered their input costs through calibrated price hikes during the March 2023 quarter. Operating profit margins of Asian Paints and Kansai Nerolac Paints expanded by around 350 basis points each to 22.9 per cent and 9.5 per cent, respectively.

Akzo Nobel India's operating profit margin expanded by 250 basis points to 16.3 per cent. Operating profit margin of Indigo Paints and Elantas Beck India expanded by 340 basis points and 170 basis points to 22 per cent and 21 per cent, respectively, in the March 2023 quarter. Meanwhile, Berger Paints' operating profit margin shrunk by 65 basis points to 15.6 per cent in the quarter.

#### Operating Profit Margin: Paints & Varnishes (%)



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#### Net Profit Margin: Paints & Varnishes (%)



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Along with the growth in operating profit, growth in net profit also accelerated in the March 2023 quarter. Net profit of the industry rose by 33.5 per cent year-on-year due to exceptional performance at the operating level as well as low base. Other income of the industry increased by 32.7 per cent in the March 2023 quarter against a 12.8 per cent fall in the previous year's March quarter.

### Quarterly Financial Performance: Paints & Varnishes

Quarter	Total income	Net sales	Operating profit	Net profit	Operating profit margin	Net profit margin
	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	%	%
Sep 2021	29.32	29.39	-22.27	-26.09	13.56	8.51
Dec 2021	22.79	23.36	-12.72	-15.89	17.14	11.42
Mar 2022	13.65	14.03	-0.16	2.26	16.58	10.85
Jun 2022	53.87	54.93	61.33	63.17	16.90	11.20
Sep 2022	20.05	20.37	22.67	25.28	13.81	8.89
Dec 2022	3.45	2.77	0.13	4.16	16.70	11.50
Mar 2023	13.11	12.89	30.85	33.46	19.22	12.80

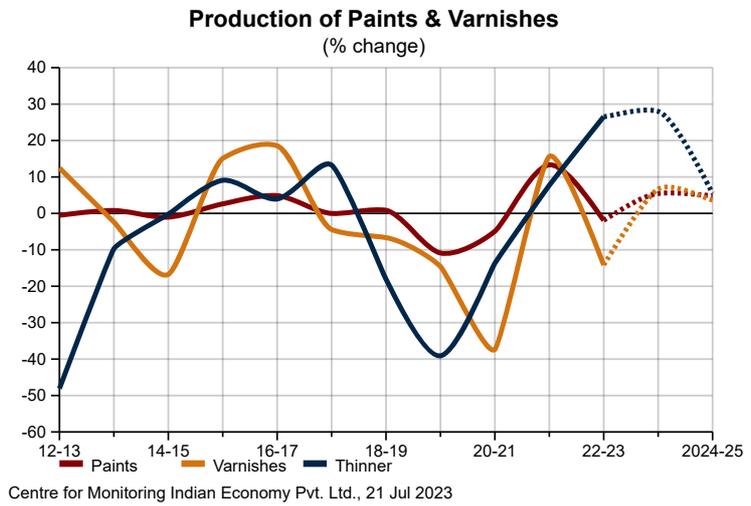
Note: All income and profit figures are net of prior period and extraordinary transactions.

## Output of paints and varnishes to revive

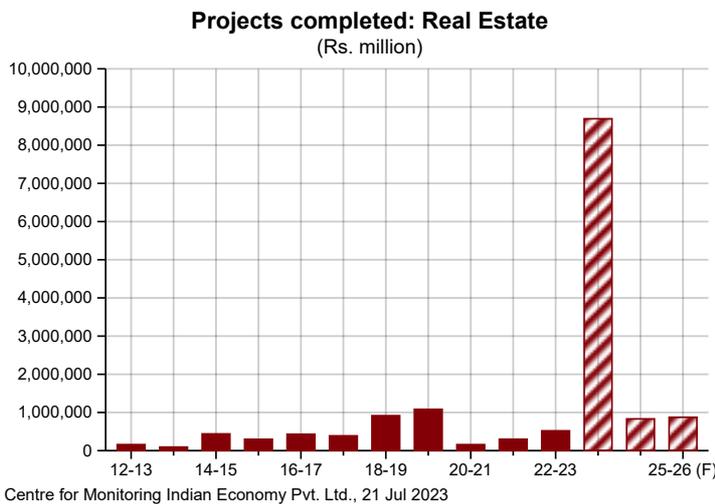
Production of the paints and varnishes industry is projected to revive in the current financial year. Output is expected to increase in 2023-24 after declining by 1.9 per cent in the previous year. This

decline in output of paints in the preceding year was on account of a subdued demand, high inflation and prolonged monsoon. Recovery in output will be on the back of increased demand from user industries, especially the real estate sector.

Production of paints is expected to grow by 5.4 per cent in the current fiscal. Output of both, decorative paints and industrial paints, is expected to increase during the year.



The real estate sector accounts for about 70-75 per cent of the total paint demand. Paints demand from this segment is expected to be robust this year due to record project completions in the real estate industry, increased government spending on affordable housing and infrastructure and strong sales performance by the residential segment.



The real estate industry is expected to witness record project completions in the ongoing financial year 2023-24. Projects worth more than Rs.8.5 trillion are expected to be completed this year, according to our capex monitoring machinery. These projects include the completion of postponed projects since the Covid-19 pandemic as well as the completion of key infrastructure projects under the Pradhan Mantri Awas Yojana

(PMAY) scheme ahead of the general elections.

The central government has increased the budgetary outlay for its affordable housing scheme, PMAY, by 66 per cent to Rs.790 billion for the year 2023-24. The government has also created the Urban Infrastructure Development Fund (UIDF) with an allocation of Rs.100 billion for infrastructure projects in tier-II and tier-III cities. Increase in allocation for housing and infrastructure projects is expected to contribute to the growth in demand for decorative paints.

The housing sales across top seven cities reached a new peak in the first quarter of the ongoing financial year, according to data released by property consultant, Anarock. With over 115,000 units sold, the residential industry reported a healthy 36 per cent year-on-year increase in sales. The ongoing momentum in residential sales is expected to continue in the remaining quarters of 2023-24.

Traditionally, about 15-20 per cent of demand for decorative paints comes from new construction. With the ongoing momentum in the real estate sector, we expect a healthy growth in decorative paints demand.

Demand from repainting, which accounts for 80-85 per cent of total decorative paint demand, is also expected to pick up due to factors such as a growing population, an increase in rental homes and growth in income levels of consumers. Furthermore, the repainting cycle has reduced as people have started to paint their houses once or twice every 6-7 years against the earlier interval of 15-20 years, said Mahesh Anand, President of Nippon Paint India.

Industrial paints account for about 25-30 per cent of the total paint demand. This demand comes from industries like automotive, oil and gas, aerospace, marine and electronics. Majority of the industrial paint demand is derived from the automotive industry. The automotive industry is set for an upward trajectory this year with a healthy 5.5 per cent growth expected in its production for the year ending March 2024.

Other general industries like oil and gas, electronics, aerospace, mining and marine, which use industrial paints as a coating to protect equipment, are also likely to support demand for industrial paints in the ongoing financial year.

Varnish is a hard transparent coating used on wooden products and surfaces, paintings as well as decorative objects to protect them from dust and moisture. Output of varnish is expected to revive this year after plummeting in the previous year due to weak demand. In 2023-24, varnish production is expected to increase by 6.7 per cent compared to its double-digit fall in the previous year. This recovery is likely due to a resurgence in wood and wood products project completions as well as traction in real estate project completions. The wood and wood products industry is likely to commission five projects worth a record Rs.23.4 billion in the ongoing year.

Thinner is used as a solvent to dilute paint, varnish and rubber cement and as a cleaner for removing paint, grease, tar buildup and stains from any surface or equipment. With an anticipated increase in repainting and construction activity, the usage of thinner is also expected to grow significantly this year. Production of thinner is projected to grow by almost 28 per cent in the year 2023-24. This surge is likely to be on the back of increased construction activities, healthy growth in the output of the paints and varnishes industry and traction in the real estate and infrastructure sector.

Export volumes are expected to grow by 7.7 per cent this year after falling by 7.5 per cent in 2022-23. Volumes are likely to recover as there is an increasing trend in the overseas shipments to countries like Russia, Bhutan, Tanzania and USA on a monthly basis. Export realisation is likely to increase by 3.6 per cent over and above a 14.4 per cent growth reported in the previous fiscal. With healthy growth expected in volumes and realisations, the value of exports is estimated to grow by 11.6 per cent year-on-year in the forecast period.

## No capacity addition in 2023-24

As per our capex monitoring machinery, no projects are scheduled for completion in 2023-24. Paint manufacturers have sufficient manufacturing capacity to cater to any incremental demand for paints. In 2024-25, just one project is expected to be commissioned. Asian Paints is setting up a paint manufacturing unit in Gujarat, with an investment outlay of Rs.9.6 billion. This project is expected to be completed by the end of next fiscal.

In 2022-23, the industry witnessed one project getting commissioned. Berger Paints commissioned its plant at Sandila in Uttar Pradesh. This plant has an annual production capacity of 180,000 kilolitres/

million tonnes of water-based paints and 57,600 kilolitres of solvent-based paint.

## CMIE Paints and Varnishes Index delivers positive returns for the third consecutive month

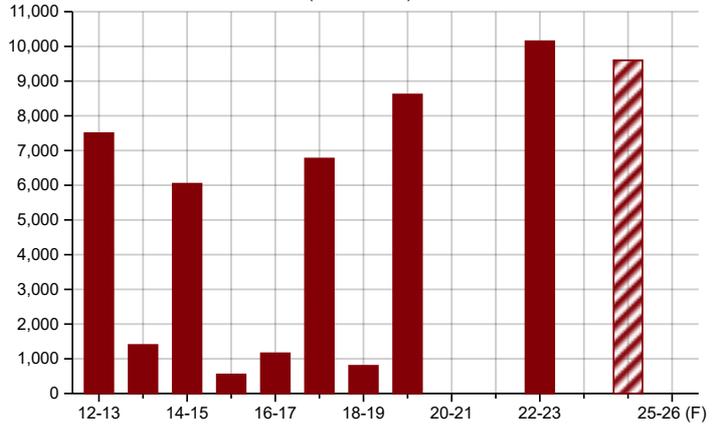
The 'CMIE Paints and Varnishes Index' comprising all listed paints and varnishes companies, increased by 5.2 per cent in June 2023. In April and May 2023, the index yielded a positive return of 4.7 per cent and 10 per cent, respectively. The index performed better than the broader CMIE Total Returns Index (CTRI), Nifty and Sensex in all three months of the June 2023 quarter.

The share price of Asian Paints increased by 5.3 per cent month-on-month in June 2023. Share prices of Berger Paints India rose by 4.2 per cent and that of Kansai Nerolac Paints rose by 2.2 per cent during the same month. The share price of Elantas Beck India increased the highest at 8.1 per cent. Akzo Nobel's share price dropped by 0.9 per cent in June 2023. Shalimar Paints and Indigo Paints' share prices dropped by 1.9 per cent each in the month of June 2023.

The index's price-to-earnings (PE) ratio increased for the third consecutive month to 74.3 in June 2023. Share prices of paint manufacturing companies rebounded in the June 2023 quarter after being subdued in the preceding quarter due to revival in paint demand, traction in user industries and an overall positive outlook for the industry in the ongoing financial year.

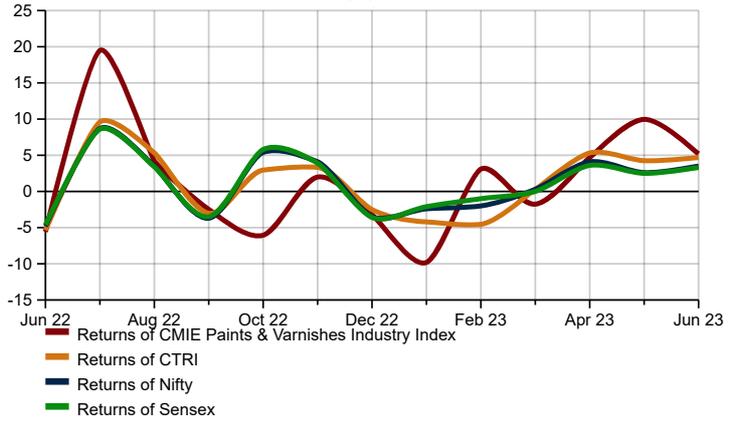
### Industry Outlook

**Projects completed: Paints & Varnishes**  
(Rs. million)



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**Monthly returns on bourses: Paints & Varnishes**  
(%)



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