

The indian paint industry economics essay



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The prices of paints largely depend on the cost of raw material. There are around 300 odd raw materials required for the manufacturing of paints. The major raw-materials are titanium dioxide, phthalic anhydride and pentaerythritol. These constitute around 50 percent to total cost. Titanium dioxide alone contributes 30 percent to the cost. The other raw materials like linseed, castor, soyabean oils, etc. add up to the whole raw material cost of 70 percent of total cost. So, the prices of paints are very much dependent on raw materials and any fluctuations in the price of raw materials will eat up the margin of the company.

Nearly 30% of the 300 raw materials are petroleum based derivatives. So, any change in crude oil prices will lead to change in the prices of raw materials. From last 2-3 years, there were lot of fluctuations in crude oil prices because of which margins of the paint companies got hit. The pressure further increased due to recession and there after decrease in consumption.

Cyclical nature of decorative paints

The demand of decorative paints is cyclical in nature i. e. it increases for a period, then decreases and after certain period of time it again increases thus showing cyclical pattern. It happens because people generally have their houses white-wash during festive seasons. Also, once houses get painted, then it needs a white wash after 4-5 years.

The demand is influenced by monsoon also. When there is a good monsoon, then there is an increase in agricultural and industrial output. This has a positive impact on disposable income with people and hence a good

demand. But if the monsoon is not good, then the demand will get affected especially in decorative paints segment.

Environmental hazards

The majority of paints manufactured in India contain a large amount of lead, mercury and chromium. These elements are very hazardous in nature and can pose a threat to health of human beings. Now the policies are becoming very strict and thus companies are required to come up with newer manufacturing processes so as to produce paints with a low amount of VOC (volatile organic compound) and minimal aromatic content. Also, the content of lead, chromium and mercury should be very less thereby making the paint eco safe.

Other threats

Import policies – The import policies plays a very significant role in determining the prices of paints because around 30% of the raw materials has to be imported from foreign countries. So, any change in import tax regime will have an impact on the costing.

Exchange rate – Since the major raw materials are imported, any movement in rupee-dollar prices is very critical and hence need to be closely looked. For example, whenever rupee depreciates against dollar, the buyer has to shelve out more money.

Supply chain – The paint industry requires a lot of working capital because the manufacturer has to buy 300 raw materials and from different vendors.

So, the company which has a very robust vendor and distribution network will largely benefit from it.

Technology advancements in the paint industry is highly technology intensive due to which small players find it very difficult to invest in newer technologies and thus succumb to competition from foreign companies. Large players have tied up with foreign companies and they are still dominant in the market.

FUTURE PROSPECTS

In India, the per capita consumption of paints is very low as compared to other developed countries. So, there is a lot of growth potential for paint companies. The major areas where Indian Paint Companies can leverage their growth potential are:

Rural Market

Around 70% of the total population of India resides in rural areas and the rural sector contributes only 10-15% of the total consumption of paints. So, there is a large growth potential in rural market. In rural areas, there are many households who have disposable income but distribution network is not in place. Also, in this year, improvement in agriculture and allied sectors, coupled with good monsoon has improved the demands. Also, the various government schemes have improved the earnings of rural people. The industry can increase its revenue from rural market by introducing low cost paints and coatings. Also, the companies will have to increase advertising budget for rural areas coupled with developing distribution network.

Industrialisation

In India, rapid industrialization is taking place because of liberal policies and huge foreign investment in India. India is becoming an industrial hub for automobiles, consumer durables and various other industries. With the rapid growth, demand of Industrial coatings will go on increasing.

At present, the share of industrial paints is 35-40% which has a potential to touch 50% in few years. Also, due to large investments in steel, power, refinery sectors, the sales of high performance coatings and coil coatings is increasing.

Real estate sector

India is registering a constant GDP growth of around 7.5% to 9% after there was a slowdown in economy two years back. Now the real estate sector is booming with large investments in housing sector and construction sector. There is a rapid increase in sales of decorative paints and architecture paints and it will continue in future. Also, the customer preference in buying paints is moving towards water paints because of environmental issues.

South Asian countries and Developed economies

Indian paints have a very good market in USA, UK and European countries. With the recessionary measures taken and the revival of global economy, the exports will revive and will steadily move in upward direction.

Also, the other avenues of growth are developing economies like Nepal, Bangladesh, Sri Lanka, Pakistan, Bhutan, Mynmmar and Arabian countries like UAE, Egypt, etc.

India as a paint manufacturing hub

The Indian paint industry saw a significant change in reduction of excise duties, custom duties which led to reduction in the prices of raw materials. Also, there was a restriction on increasing the capacity of plant which was removed afterwards by the government. Now, since India offers cheap labor and various other tax benefits (sponsored by centre and states for inclusive growth) , it has a deep potential to become a major manufacturing hub of decorative and industrial paints.

The major Indian players have already started taking steps in this direction. The sector experienced a lot of capacity expansion, joint ventures with foreign companies, foreign acquisitions and investments in technology in the last decade. Thus, India has become a very viable option for establishment of paint manufacturing plants.