

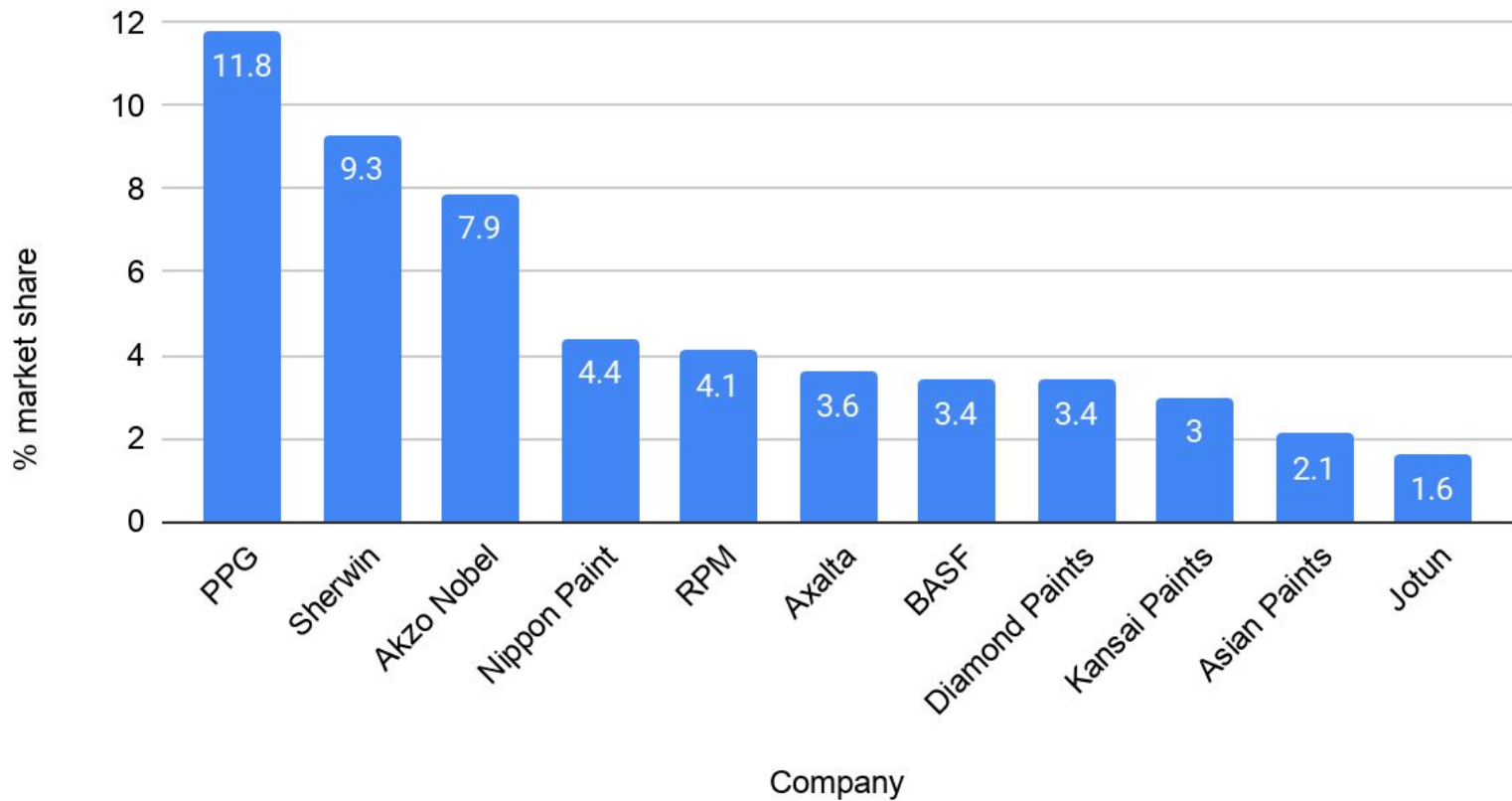


Indian Paints industry

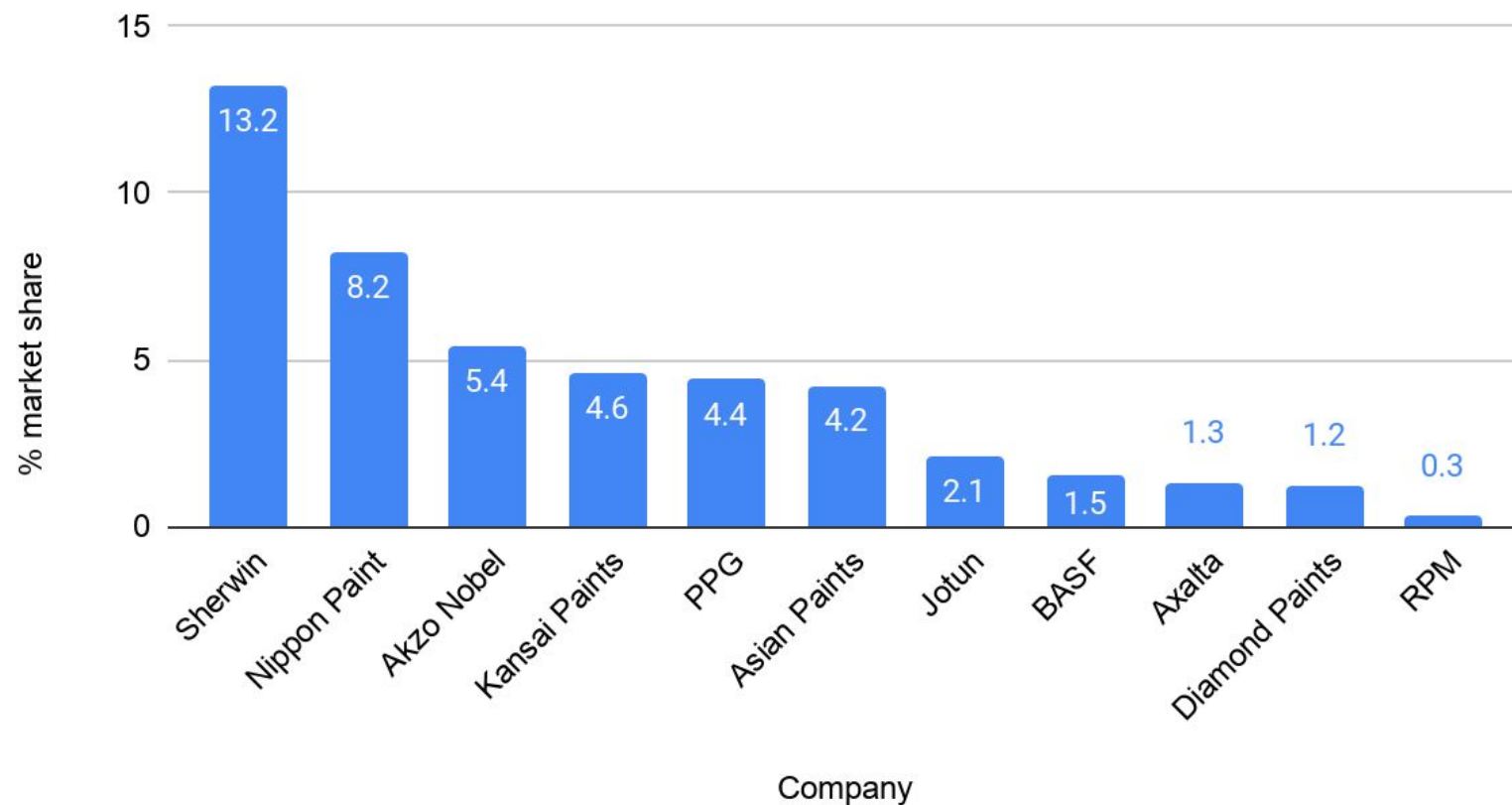
- 7th largest globally
- USD 7.1 bn/ Rs 50,000 crs
- 30% of the market is unorganised
- Fastest growing market in the world with a 15 year CAGR of 10% (1-1.5x GDP)
- Premiumisation
- Oligopoly

	Global	APAC	Indian
Value (USD Bn)	151.0	68.4	7.1
Volume (Bn Litre)	42.0	22.7	5.1
Realisation per litre (USD)	3.6	3.0	1.4

Industry is fragmented globally

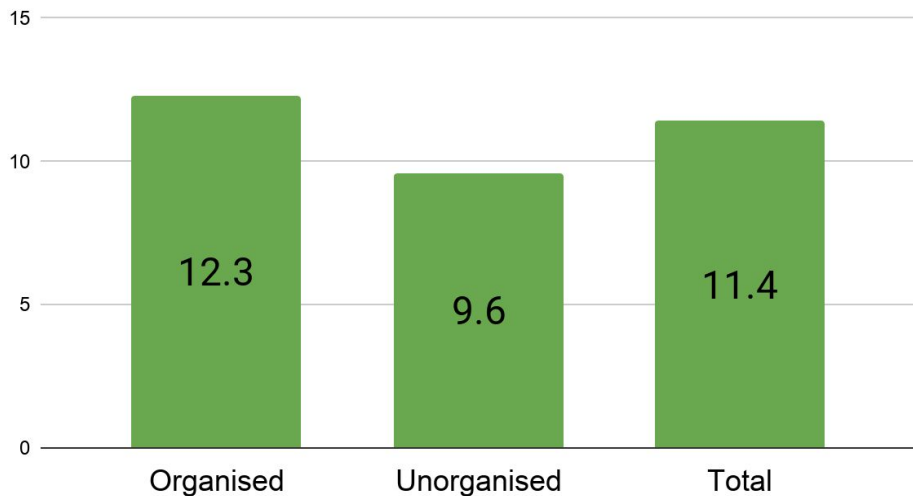


Regional players like Nippon, Kansai, Asian dominant in APAC



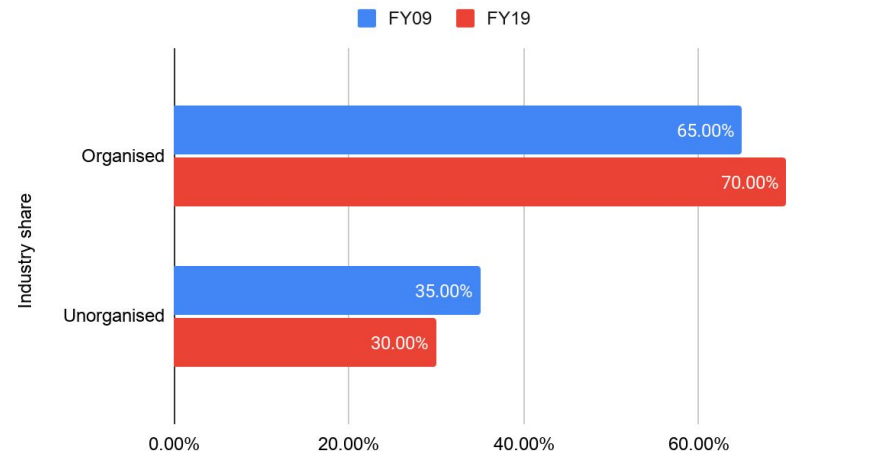
Organised vs Unorganised

Organised industry growing much faster than the unorganised



Last 10 year CAGR

Formalisation of the industry



Drivers of industry growth

- Increasing nuclearisation and urbanisation of families
- Value migration/formalisation
- Shortening of repainting cycle
- Growing demand from smaller towns and rural areas
- Affordable housing initiatives from government
- Increasing distribution reach
- Innovations, upgradation and growth in premium segment
- Infrastructure growth

Drivers of shortening repainting cycle

- Increasing disposable incomes in Tier 2 & 3 towns
- Increase in sq ft of walls per capita led by independent houses being replaced by apartments and clusters
- Conversion of mud and clay houses to brick and mortar
- Availability of paints at reasonable prices
- Increasingly being perceived

Indian Paint Industry

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graph TD; A[Indian Paint Industry] --> B[Decorative (75%)]; A --> C[Industrials (25%)]; B --> D[Premium Range (High end Acrylic Emulsions)]; B --> E[Medium Range (Enamel Paints)]; B --> F[Distemper Range (low end Paints)]; C --> G[Automotive (about 2/3rd)]; C --> H[Marine paints & other OEM's (1/3rd)]; D --> I((Metros & large cities)); E --> J((Small cities)); F --> K((Rural areas));
```

Decorative (75%)

Industrials (25%)

Premium Range
(High end Acrylic
Emulsions)

Medium Range
(Enamel Paints)

Distemper Range
(low end Paints)

Automotive
(about 2/3rd)

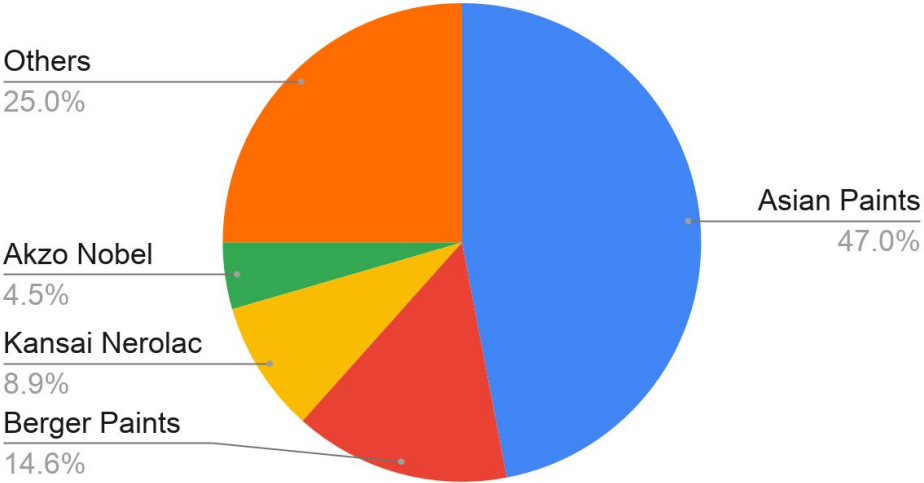
Marine paints &
other OEM's (1/3rd)

Metros &
large cities

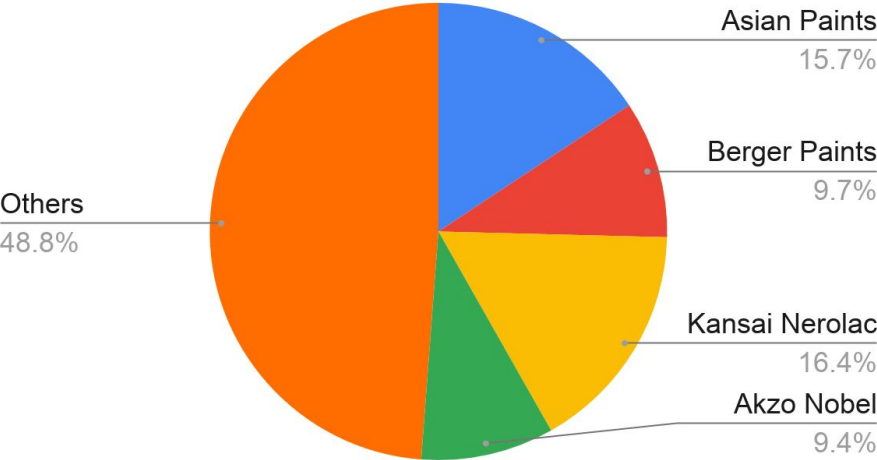
Small
cities

Rural
areas

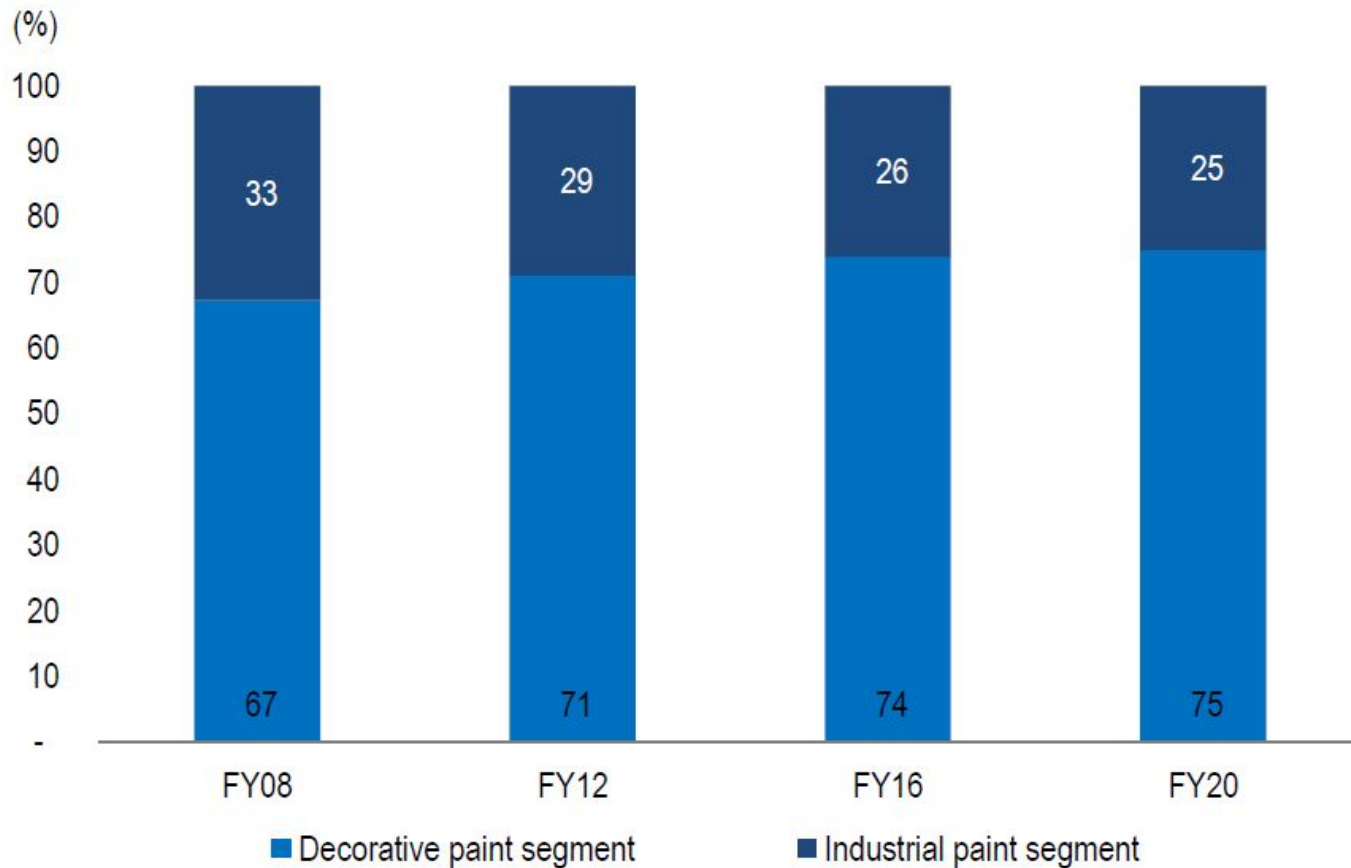
Decorative paints market share



Industrial paints market share



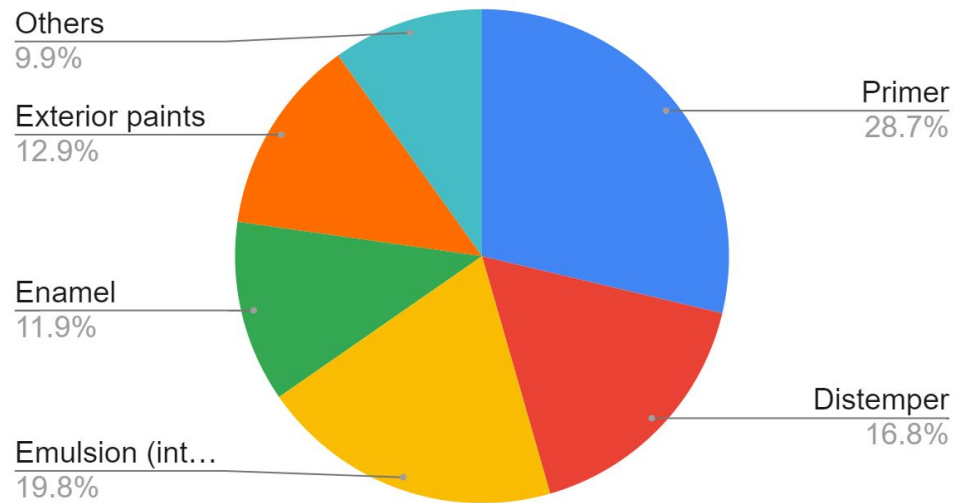
Share of decorative paint sales in increasing....



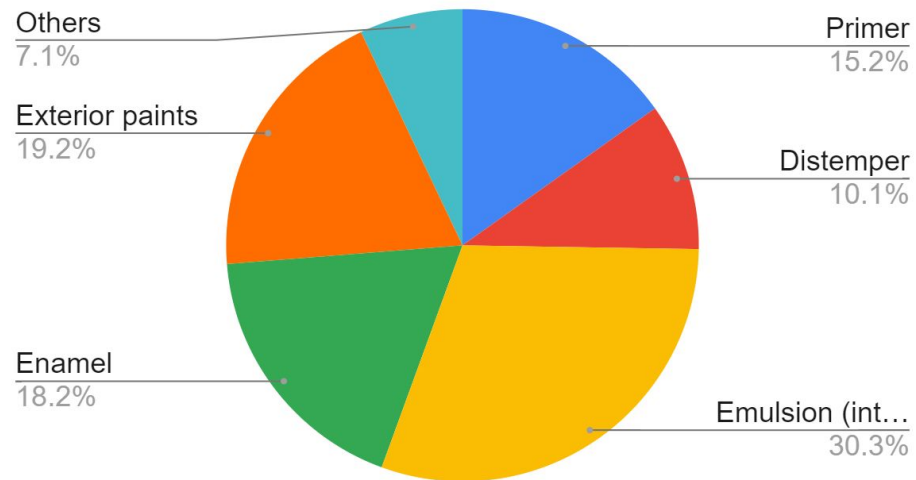
Decorative paints

- Emulsions
- Enamel
- Distemper
- Wood coatings
- Putty
- Primers
- Thinner

Split of decorative paints by volume



Split of decorative paints by value



Industrial paints

- Automotive and refinish coating
- GI coatings
- Protective coating
- Powder coatings

Industrial paints

- B2B business
- Cost competitiveness is critical
- Customers may have specific requirements
- Technical expertise

Dealer advantage

- Voluminous nature of paints
- High working capital investments (35-40 days)
- Modest dealer margins
- 3500+ SKU's
- Space constraints
- Install tinting machines to make paint shares as per customer needs

Foraying into adjacencies

1. Waterproofing and construction chemicals
2. Adhesives
3. Putty
4. Painting services
5. Sanitisers and disinfectants
6. Home improvement

Waterproofing

- Construction chemicals industry Rs 8500 crs
- Waterproofing segment market size Rs 6000 crs
- Penetration remains low at 4%
- Growing at 15-20% CAGR
- Relative size of waterproofing : paints is 1:10 in India & 1:3 globally
- Key players - Pidilite 46%, Asian Paints 23% and Berger Paints 12%

Adhesives

- Key players - Pidilite, Asian Paints and 3M India
- Market size 7500 crs
- Industry growing at 12% CAGR
- Institutional segment is twice the size of consumer segment
- Share of organised players is 60% in consumer segment

Putty

- Key players - Ultratech Cement, JK Cement and Asian Paints
- 5000-6000 crs market size
- Large unorganised segment
- Largely outsourced by paint companies
- Margins are similar to paints but ROCE much superior

Raw materials

- Resins
- Pigments
- Solvents
- Additives
- Titanium dioxide



Asian Paints

- 3rd largest in Asia and 9th largest in the world
- Market leader in decorative paints segment in India
- Rich experience of more than 70 years
- Operates in 16 countries and 27 manufacturing facilities
- Founded by 4 friends
- Champaklal Choksi - charismatic leader

Distribution - transition



Traditional Hardware shops

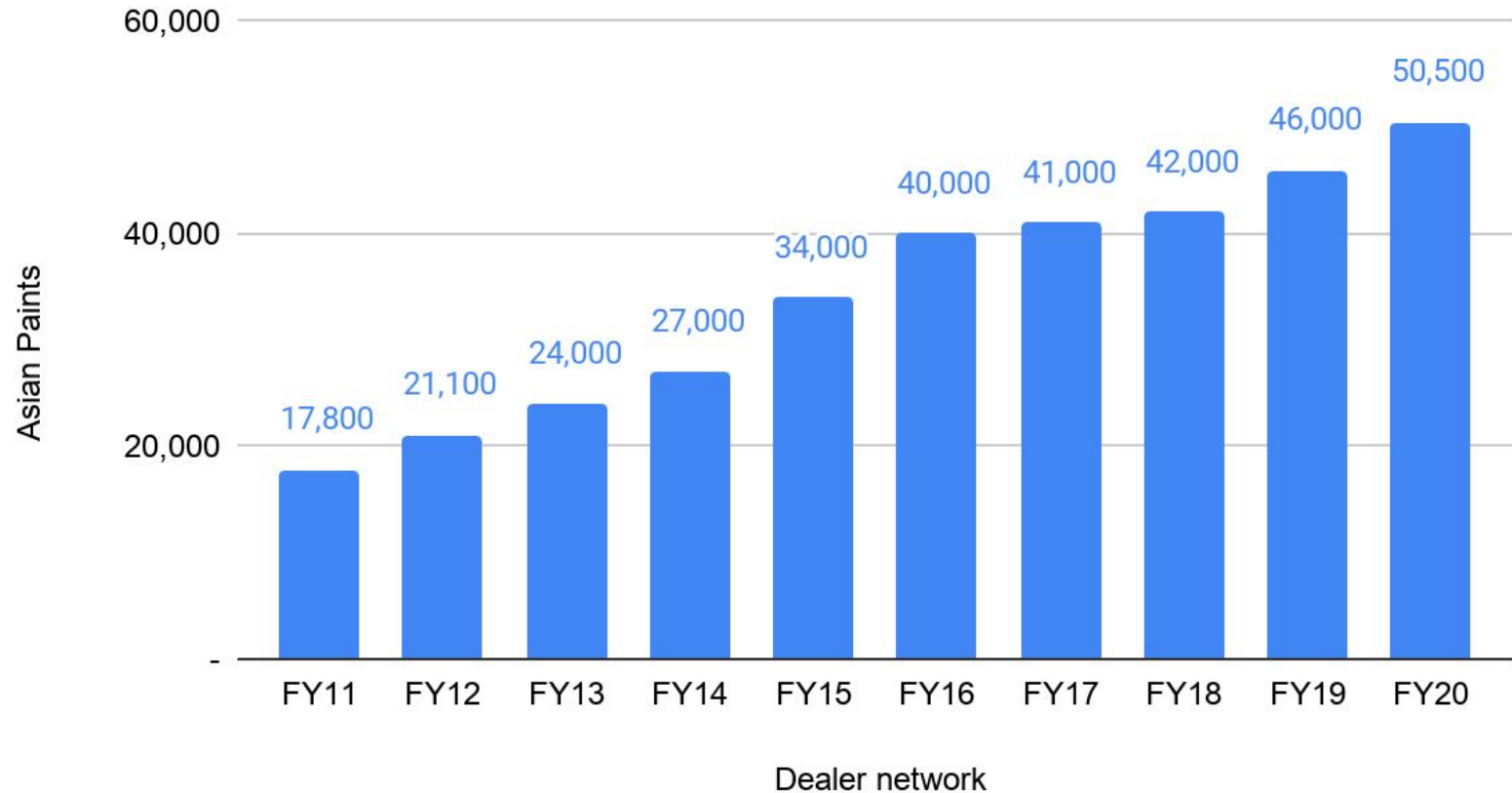


48,000+ Colour World -
Paints tinted at dealer outlets

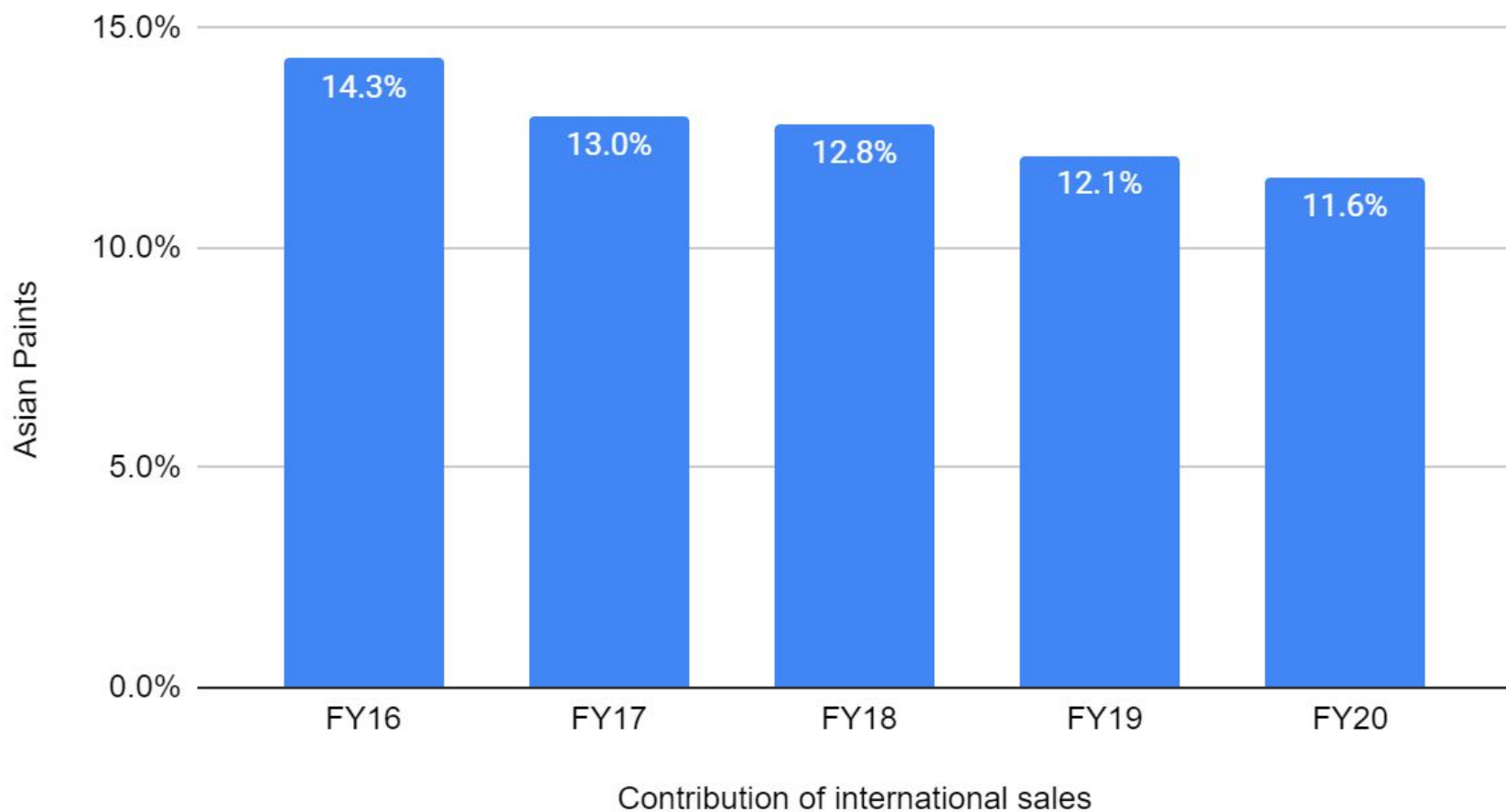


Colour Ideas – Modern dealer outlets
– end to end home décor solutions

Asian Paints Dealer network - Colour World exclusive stores



Contribution of international sales for Asian Paints

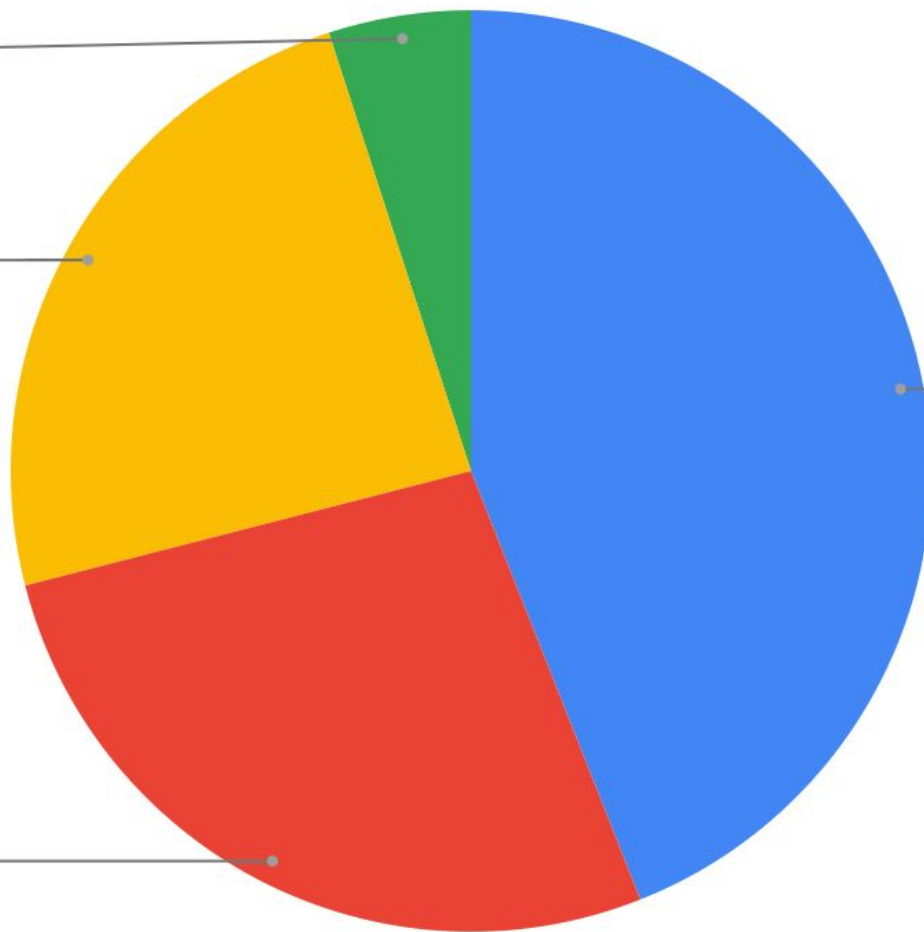


South Pacific
5.0%

Africa
24.0%

Middle East
27.0%

Asia
44.0%



Asian Paints Home improvement



Since 1760



Lewis
Berger

Paint your imagination

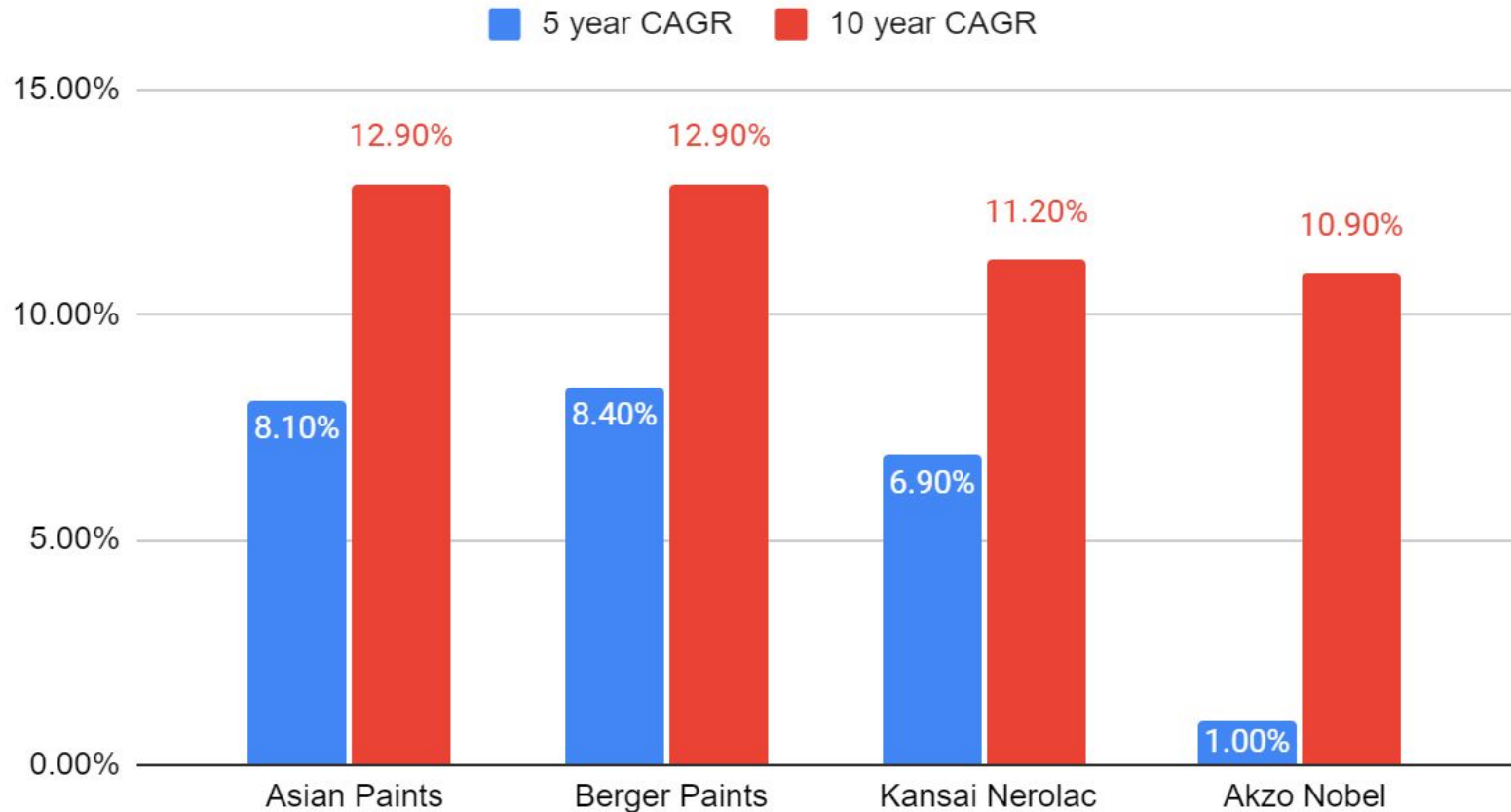
Background

- Berger Paints India Ltd was incorporated in 1923
- 2nd largest paints player in India
- Commands 12% market share in overall paints industry and 20% in decorative paints industry
- Decorative paints contributes 80% to the revenues and balance comes from industrial paints
- Also caters to overseas markets like Poland, Russia, Nepal through subsidiaries

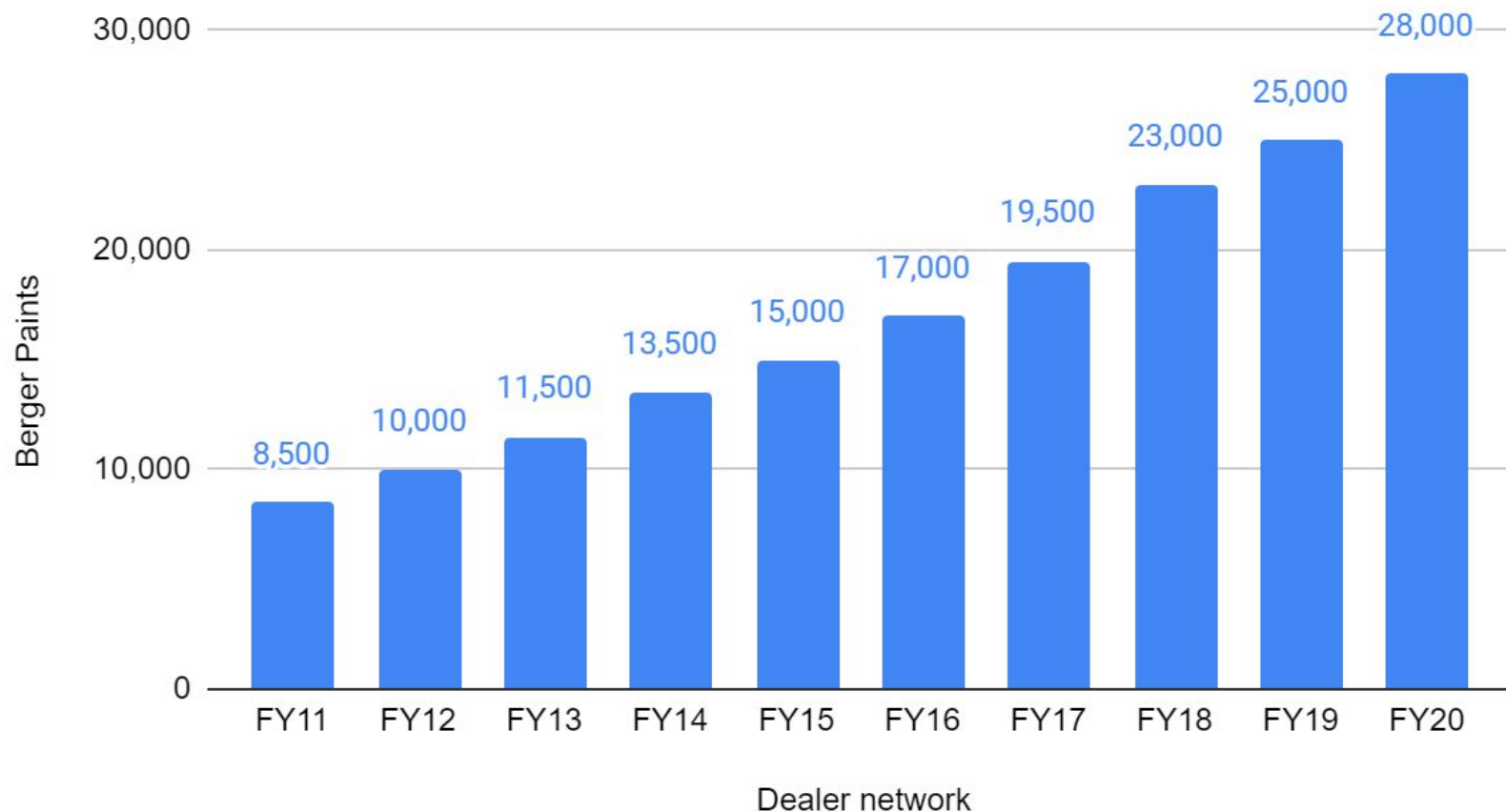
How have they done so well?

1. Improvement in product price ladder
2. Smart brand building exercises
3. Strengthening quality of distribution

Followed market leader very closely



Berger Paints Dealer network





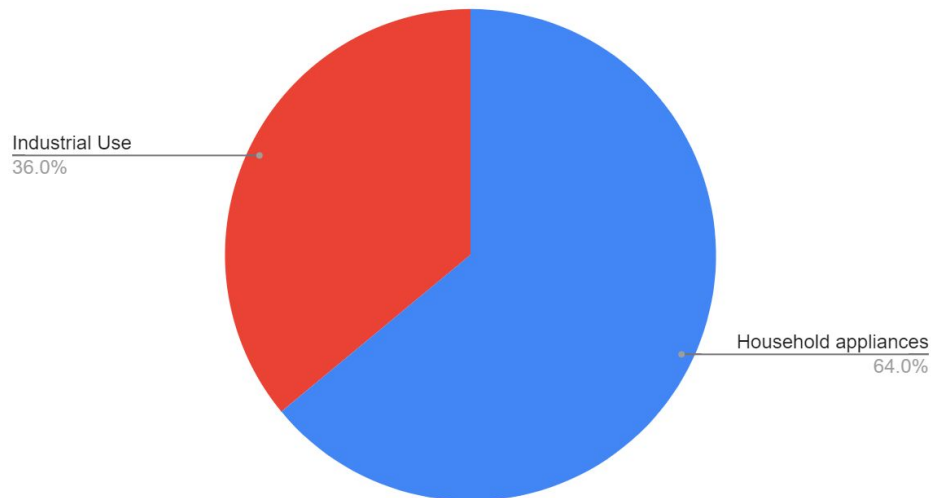
**KANSAI
NEROLAC**
PAINTS LIMITED

Background

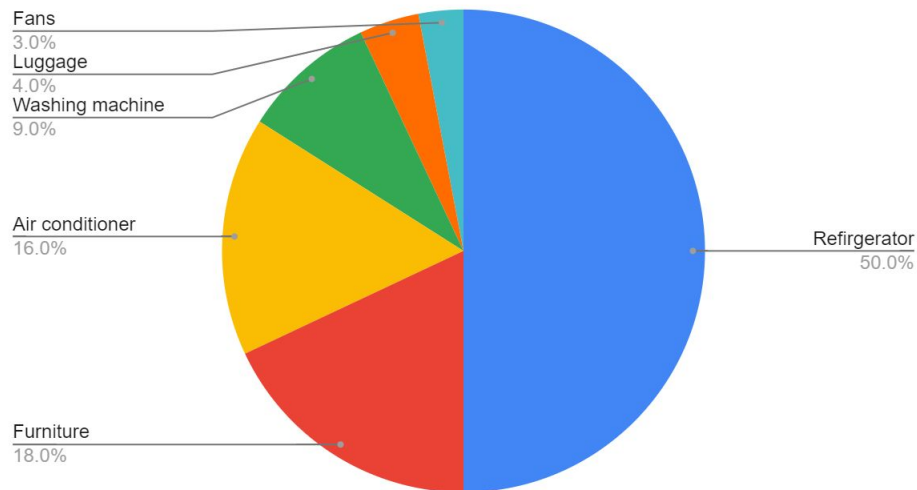
- Decorative paints : Industrial paints 65:35
- Leading player in Auto OEM paints (almost 50% market share)
- Counts Maruti Suzuki, Tata Motors, Eicher Motors, Hero Motocorp, Honda Motorcycles, Toyota, Mercedes Benz as its customers
- Growing strongly in auto refinish market (6% market share within 3 years of entering this segment)

Powder coatings

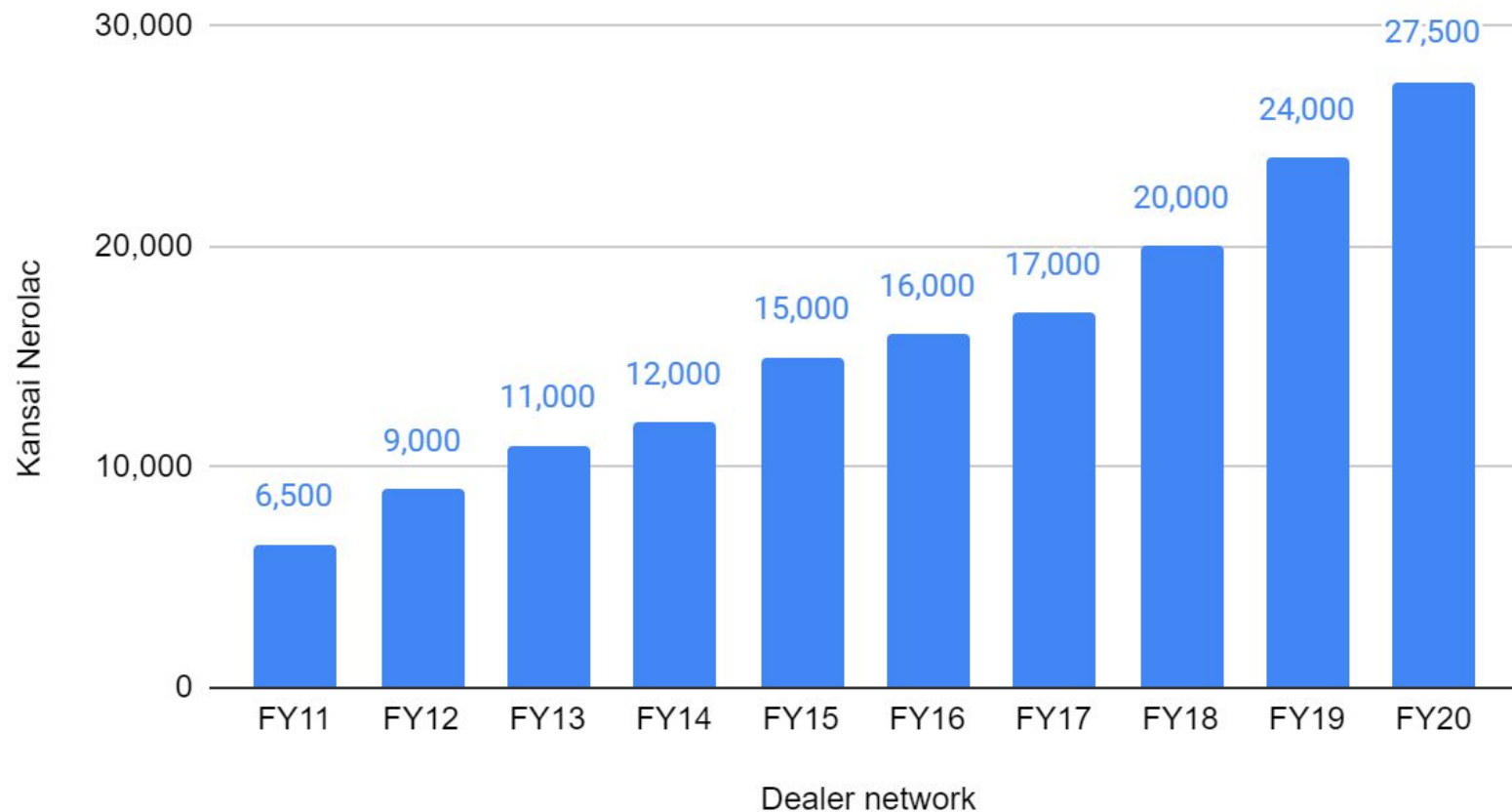
Consumption by industry volume



Consumption within household appliances



Kansai Nerolac Dealer network





AkzoNobel

Background

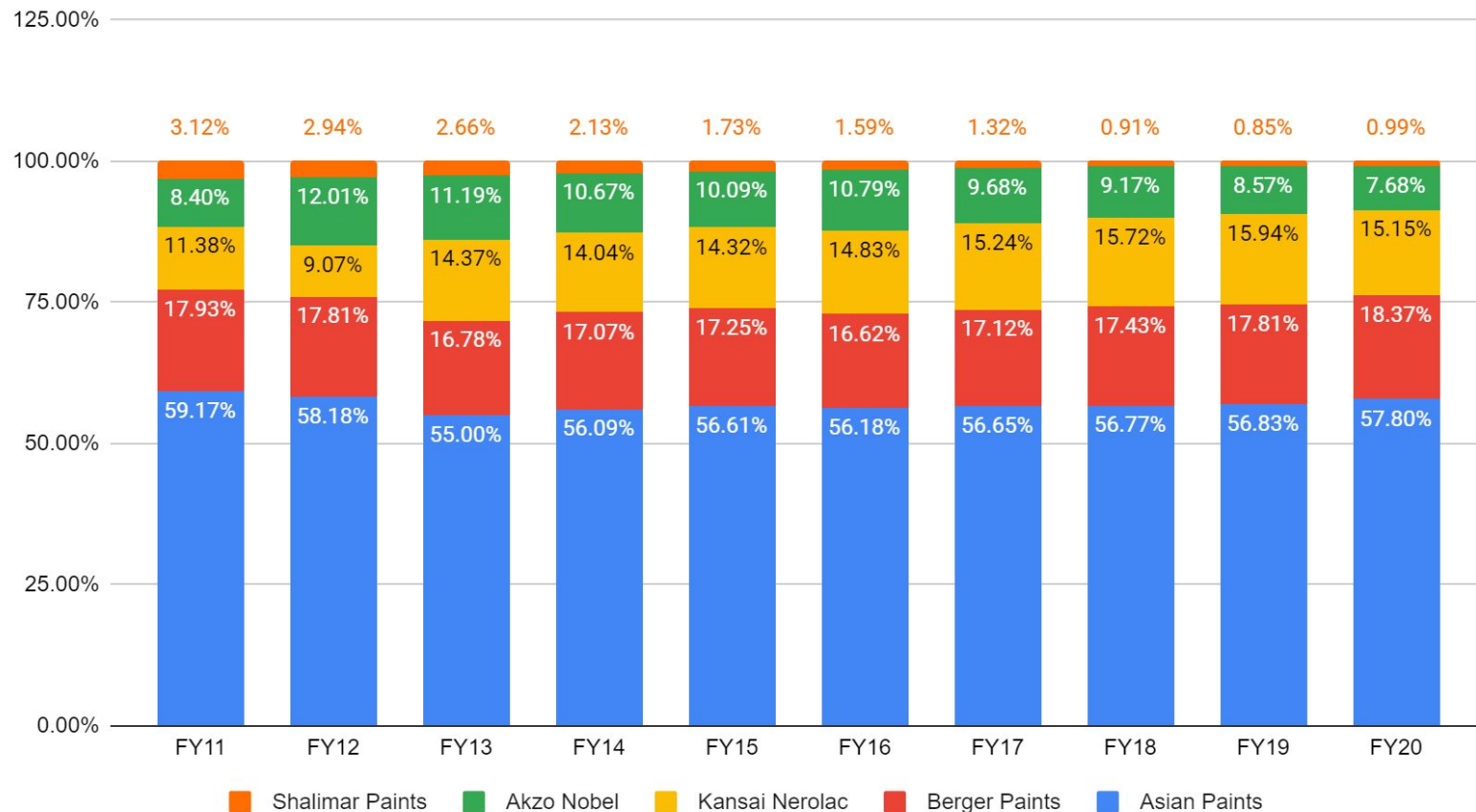
- Decorative paints : Industrial Paints 61:39
- Strong in premium and luxury segment in interior and exterior paints under Dulux brand
- Limited play in putty, adhesives and waterproofing segments
- Another strong player in powder coatings globally
- Lagged peers in growth
- Frequent change in strategies

Other key paints companies

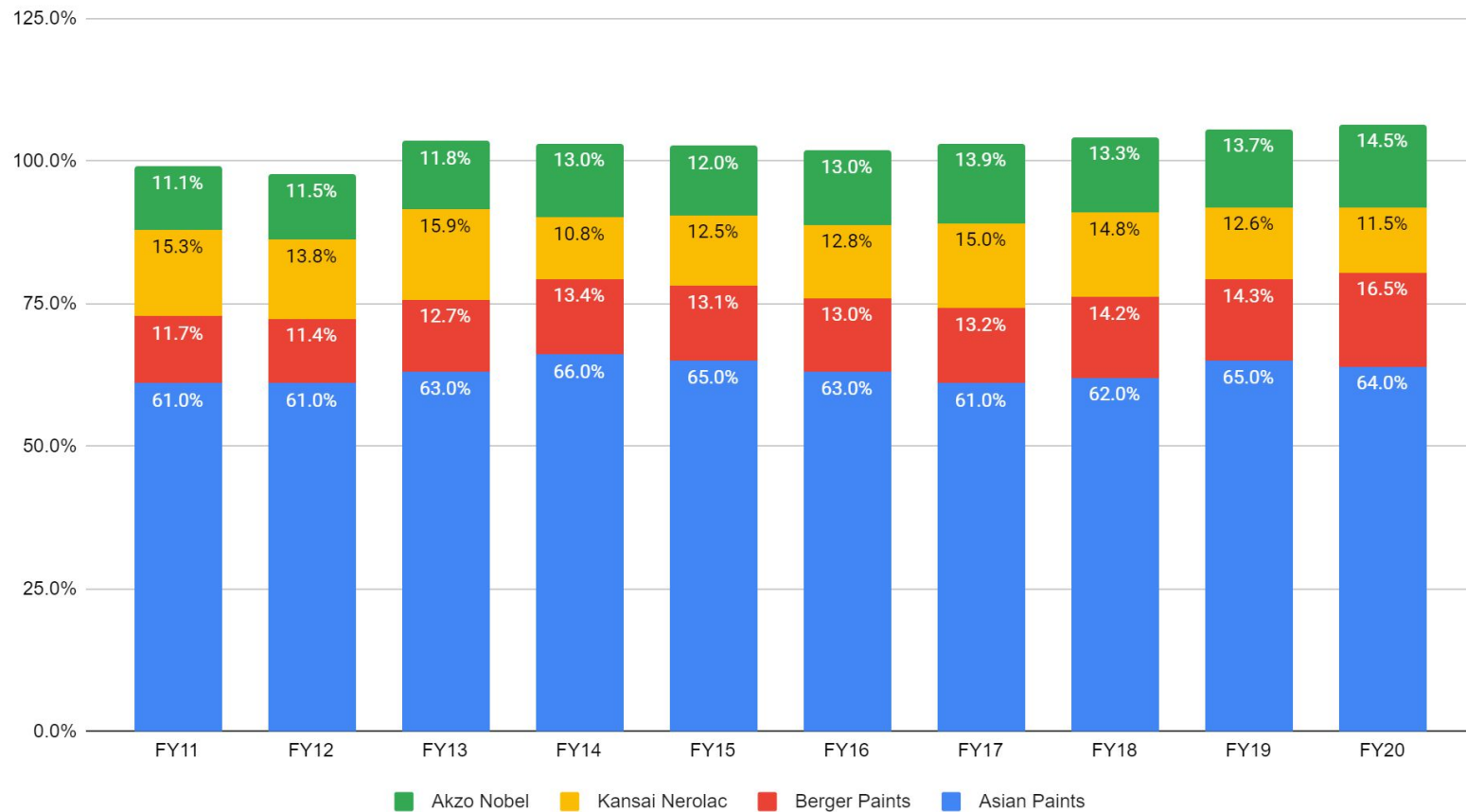
1. Indigo Paints
2. MRF Paints
3. Nippon Paints
4. Kamdhenu Paints
5. JSW Paints

Financials - comparison

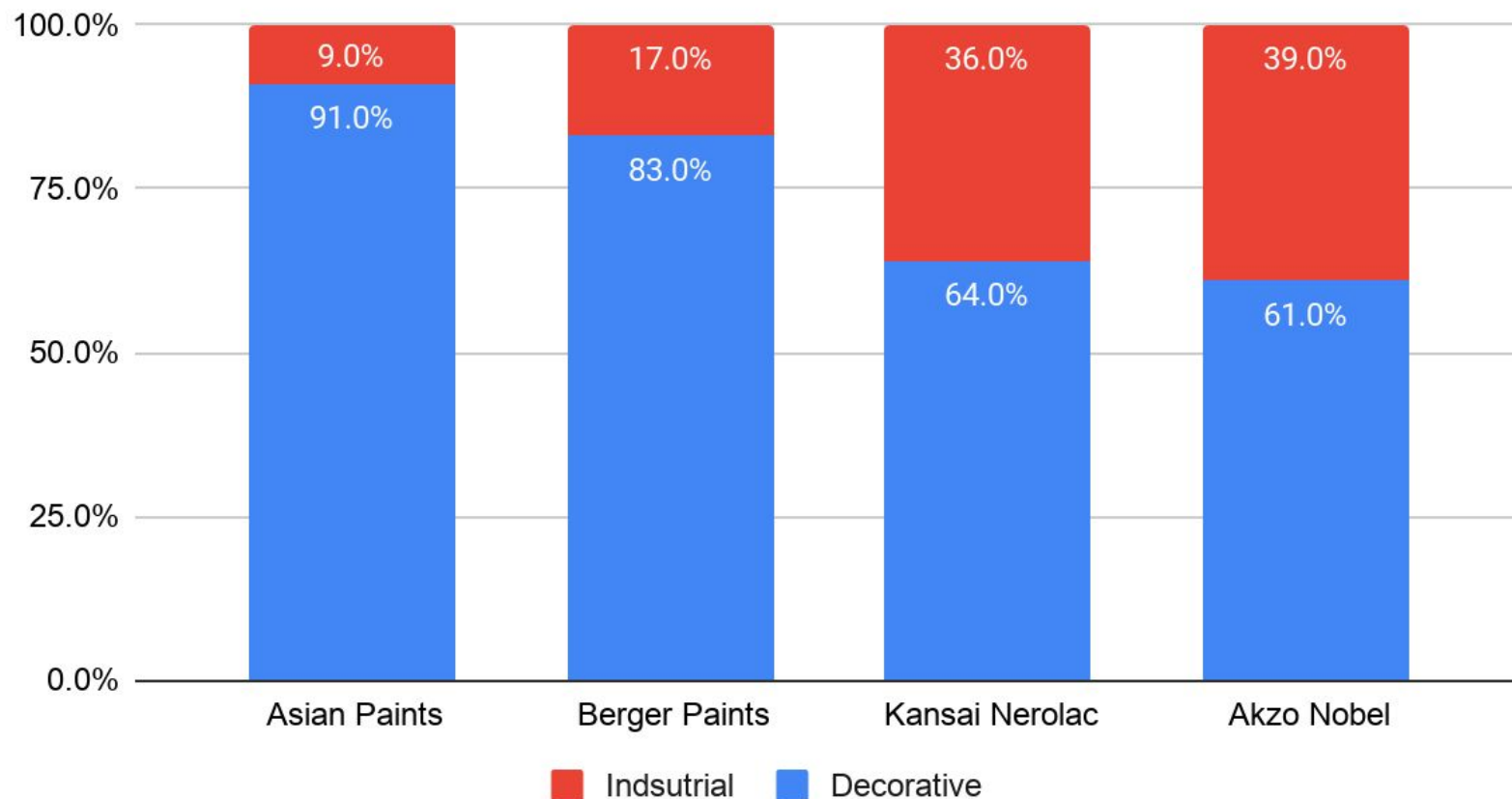
Top 5 players market share



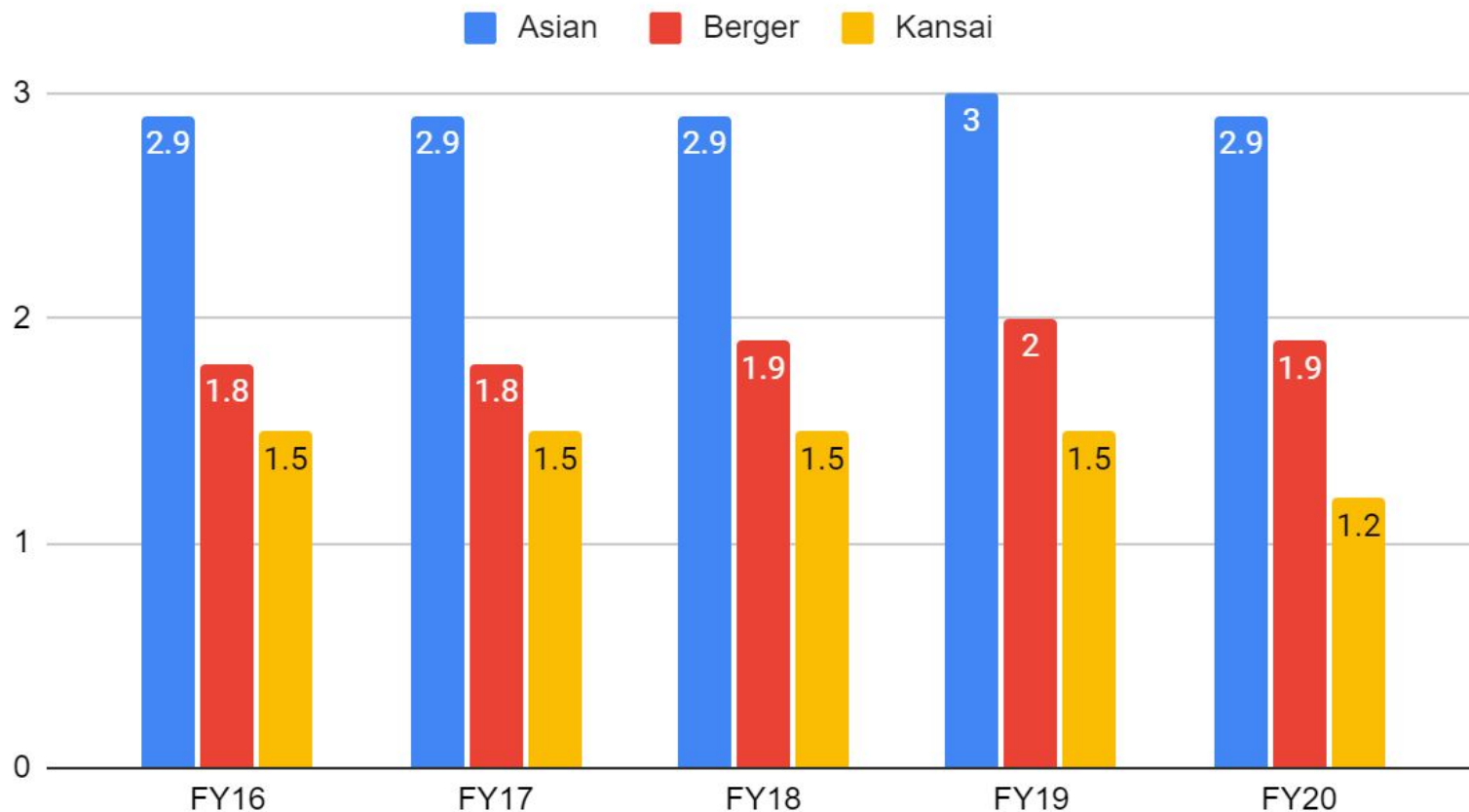
Top 4 players profitability share



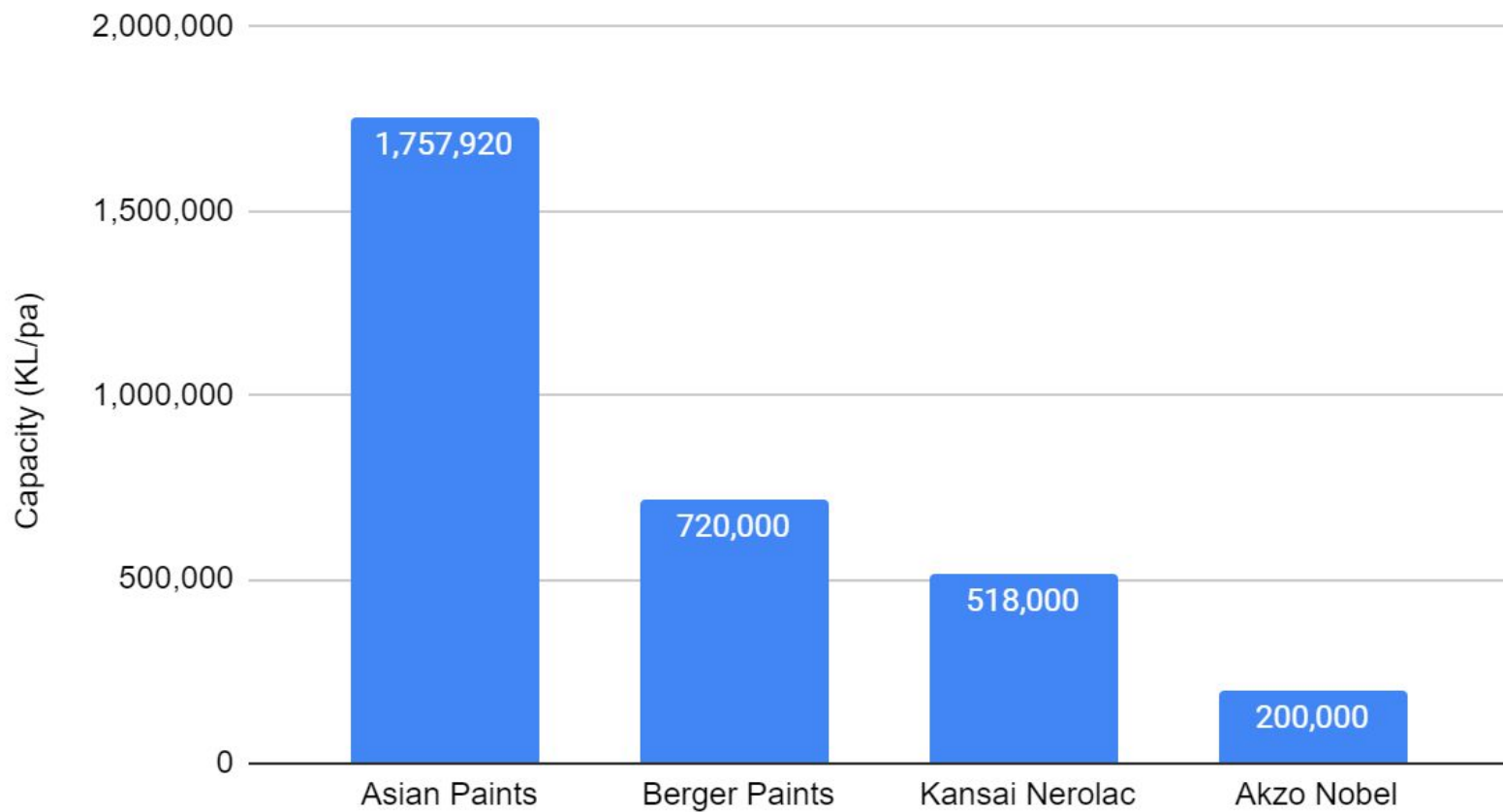
Decorative and Industrial paints mix



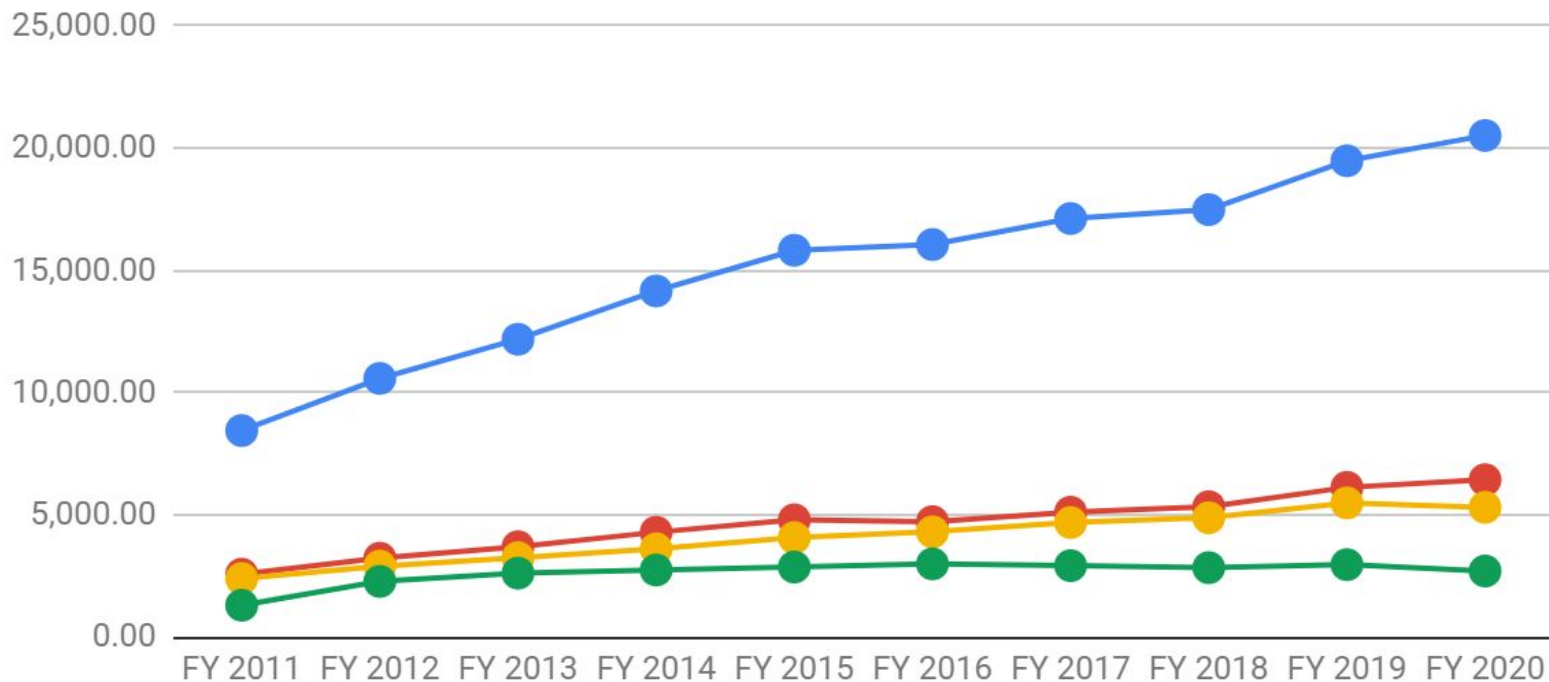
Revenue per active dealer (Rs mn)



Capacity (KL/annum)



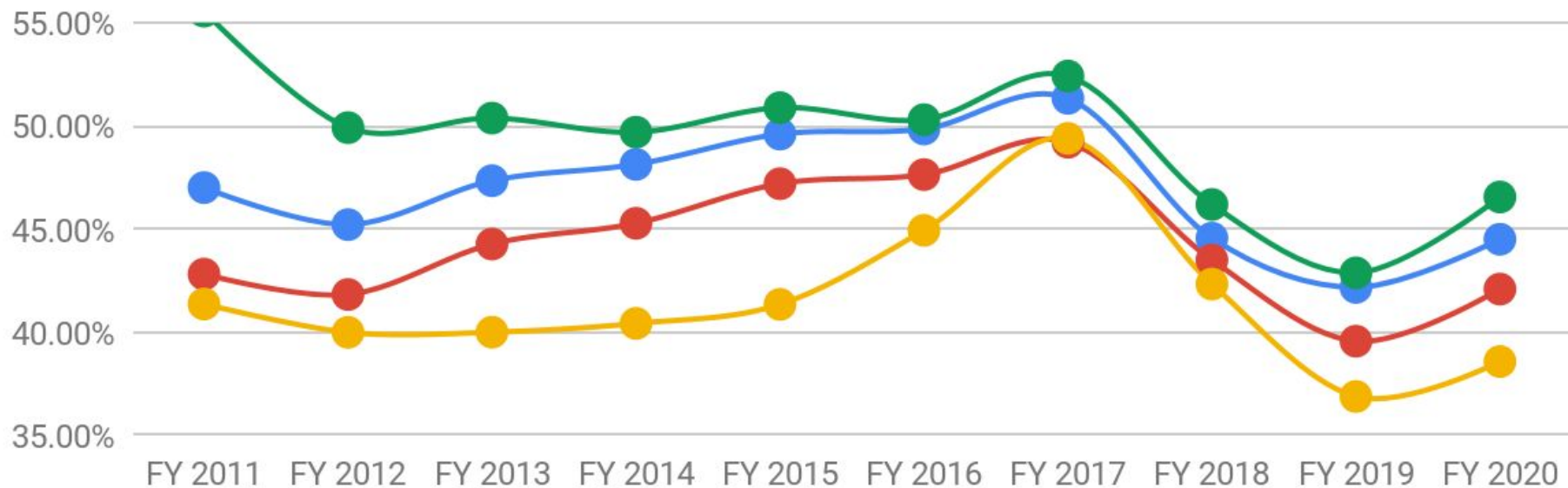
Revenues (Rs in Crores)



Sales (Rs Crores)

Asian Paints Berger Paints Kansai Nerolac Akzo Nobel

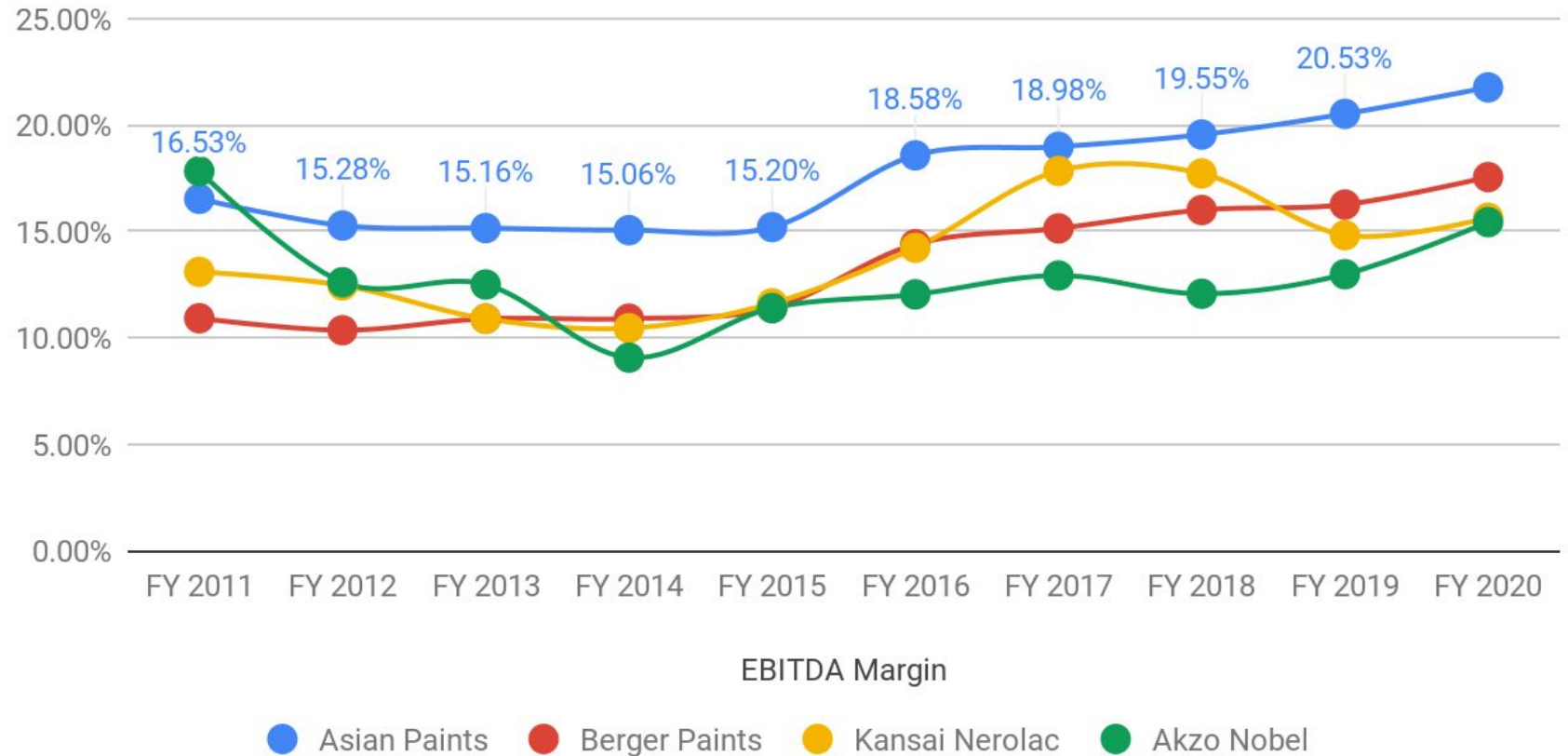
Gross Margins



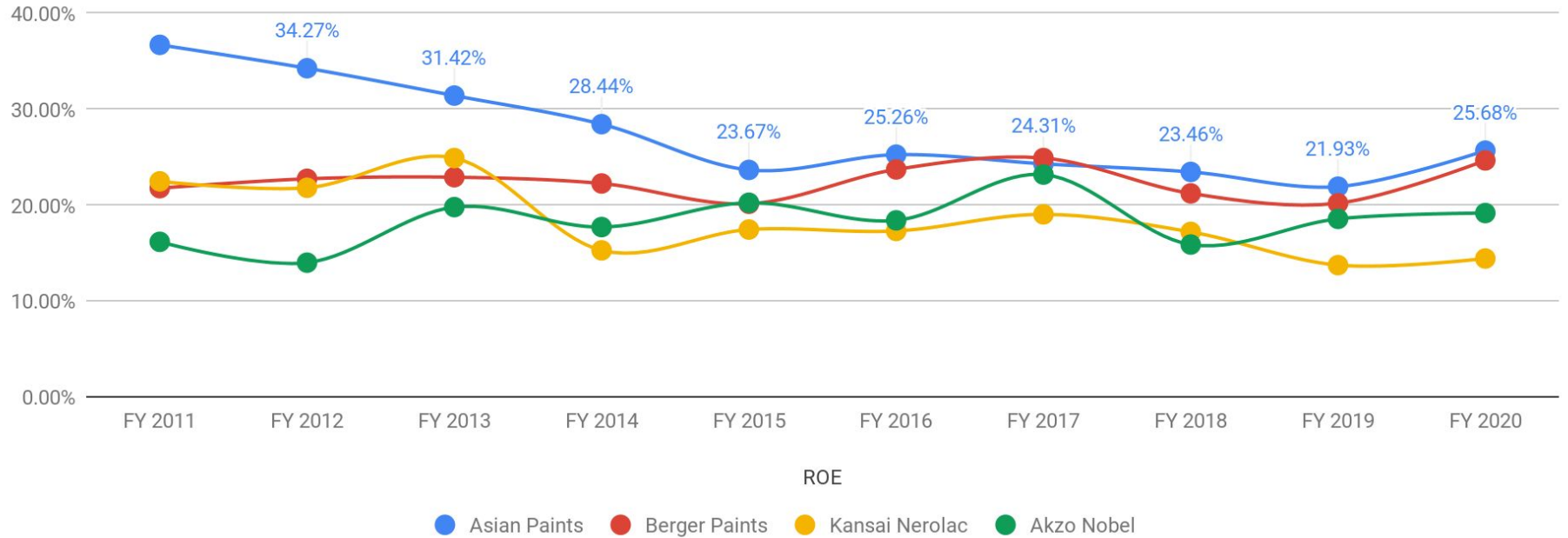
Gross Margin

Asian Paints Berger Paints Kansai Nerolac Akzo Nobel

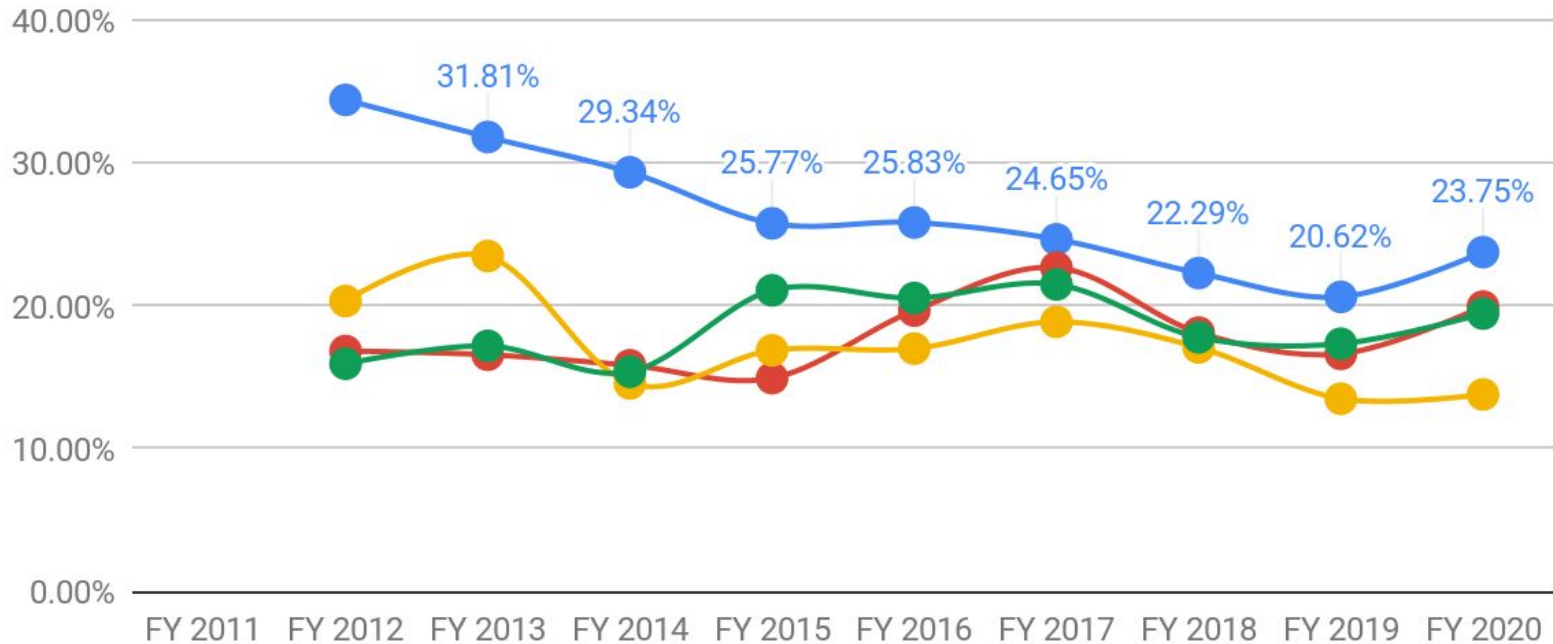
EBITDA Margins



Return on Equity (ROE)



Return on Capital Employed (ROCE)



ROCE

Asian Paints Berger Paints Kansai Nerolac Akzo Nobel

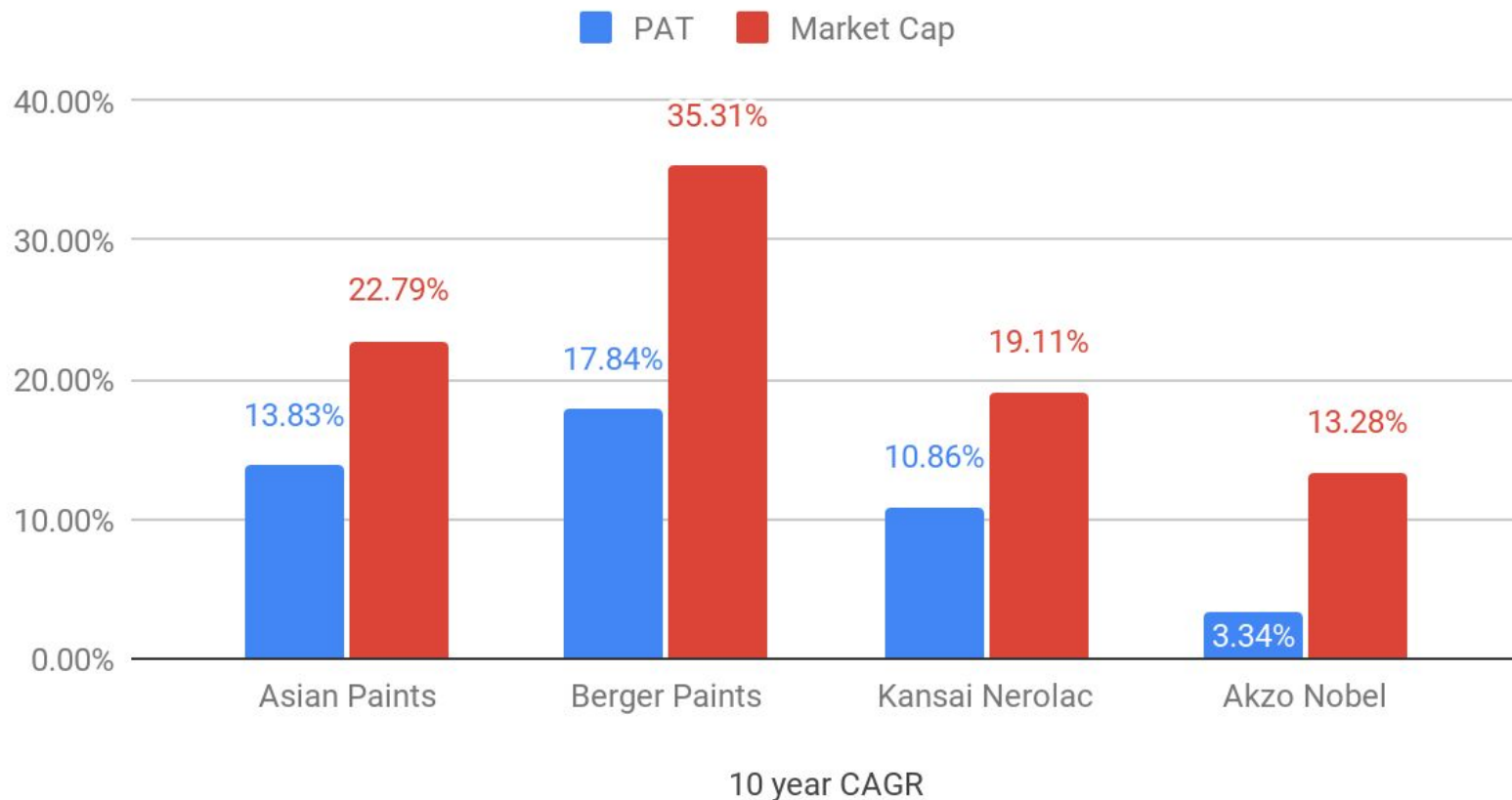
Asian Paints	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Receivable days	24.77	23.36	26.40	26.96	25.79	26.28	28.07	33.17	34.08	32.94
Inventory Days	106.49	91.46	97.59	96.96	97.75	95.18	101.35	99.53	94.10	104.84
Payable days	88.70	70.43	74.27	76.74	73.89	72.07	71.06	76.64	70.70	71.14
Cash Conversion Cycle	42.55	44.39	49.72	47.19	49.65	49.39	58.36	56.06	57.48	66.64

Berger Paints	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Receivable days	38.77	35.74	38.04	38.19	37.53	40.45	40.17	43.52	40.66	39.3
Inventory Days	110.29	102.25	116.39	118.18	115.44	125.48	133.36	132.39	119.7	123.04
Payable days	67.99	58.04	64.89	71.79	78.1	87.85	93.46	101.64	90.86	99.95
Cash Conversion Cycle	81.06	79.95	89.54	84.58	74.87	78.08	80.07	74.27	69.50	62.39

Kansai Nerolac	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Receivable days	39.73	38.95	44.37	45.47	44.14	45	44.27	48.36	48.52	53.06
Inventory Days	92.21	84.71	93.87	102.48	92.87	87.69	99.06	99.4	102.29	118.7
Payable days	83.42	58.38	59.04	67.48	70.43	75.34	81.51	78.26	67.92	74.53
Cash Conversion Cycle	48.52	65.28	79.20	80.46	66.58	57.35	61.82	69.50	82.89	97.23

Akzo Nobel	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Receivable days	19.68	23.76	33.38	37.24	37.34	38.47	47.78	51.95	51.74	56.8
Inventory Days	96.83	77.97	91.33	84.62	89.4	89.1	100.71	90.43	80.15	103.19
Payable days	142.4	88.73	127.85	127.71	120.04	129.01	154.37	159.7	133.9	158.76
Cash Conversion Cycle	-25.89	12.99	-3.14	-5.86	6.71	-1.44	-5.87	-17.33	-2.01	1.23

PAT growth is less than Market Cap



Conclusion / my take

- Stagnation in increase in no of houses
- Stagnation in increase in sq ft area of house
- Shrinking repainting cycle turnaround
- Perils of premiumisation
- Reverse DCF

