

Consumer Staples & Discretionary

Deep Dive #1: Waterproofing (long-term) opportunity for paint companies

Deep Dive is our new series in which we will explore long-term category opportunities. Our endeavor is to bring alive I-Sec Consumer team's cumulative experience of >100 years.

Waterproofing, a sunrise sector, offers healthy growth potential (~15% p.a.) over 2020-2030 (and beyond). Relative size of waterproofing vs. paints in India is 1:10 (1:3 in developed markets), whereas both are near-necessities. Pidilite and Asian Paints enjoy market leadership with moats of (1) prescription route of plumbers to leverage their consumer relationships, (2) complementary products with paints such as putty/primer with waterproofing properties and basecoats to be used prior to paints, (3) large portfolio of problem solution products, (4) strong brand equity (important in a 'problem solution' / functional category) and (5) distribution network. We believe Akzo Nobel has technological superiority and hence it's a long-term winner. While there are no pure-plays in waterproofing, we recommend exposure via paint companies and Pidilite. Top picks: Asian Paints (ADD) and Akzo Nobel (a long-gestation turnaround; BUY).

- ▶ **Key players in waterproofing market:** Waterproofing market is ~Rs60bn and is growing at ~15% per annum. Major organized players (market share) are Pidilite (46%), Asian Paints (23%) and Berger (12%). Players such as Akzo, Kansai Nerolac and Astral Poly have recently entered the market.
- ▶ **Sub-segments of waterproofing market:** There are seven sub-segments of waterproofing market in India as (1) Roof, (2) External, (3) Interior, (4) Structure, (5) Bathroom, (6) Water tank and (7) Below ground waterproofing. We note the Roof, External, Internal and Structure segments account 80% share of the market. The revenue share of new construction and repair segments is 25:75.
- ▶ **Geographical revenue mix and seasonality:** The industry is stronger in South and West India due to higher rainfall and possibility of damage to the buildings. The East and North regions account for just ~40% of the market. Considering the strong brand equity and established distribution in South India, Asian Paints has strong right to win whereas Kansai (50% revenues in North) has relatively limited potential. While there is structural growth potential in waterproofing industry, we believe its annual volatility may be high due to impact of monsoon (prolonged / delayed or excessive / scant).
- ▶ **Prescription route is important:** Being a 'problem solution' category, the consumer promotions are of limited utility in this category. Market leader Pidilite has started Dr.Fixit academy to educate the plumbers about waterproofing problems as well as solutions. In turn Pidilite benefits from the relationships of these certified plumbers with the consumers. In order to win trust of the consumers, Paint companies offer warranty upto 10 years on their waterproofing products.
- ▶ **Logical extension to paints:** Paint companies are leveraging the logical extension of waterproofing to promote paints and offer better value to consumers. They have introduced (1) putty with waterproofing properties, (2) Primer with waterproofing benefits, (3) crack fillers with waterproofing properties. We also note paint companies have launched base coats with waterproofing benefits to be used with exterior paints.
- ▶ **Stock Calls:** Waterproofing market offers healthy growth (~15%) as well as healthy margins/return ratios. Though there are no pure-play listed companies in waterproofing segment, investors can get exposure through Asian Paints, Akzo Nobel and Pidilite.

Sector update

Asian Paints (ADD)
TP: Rs1,900

Berger Paints (HOLD)
TP: Rs510

Kansai (HOLD)
TP: Rs460

Akzo Nobel(BUY)
TP: Rs2,350

Pidilite Ind (HOLD)
TP: Rs1,330

Astral Poly (ADD)
TP: Rs1,007

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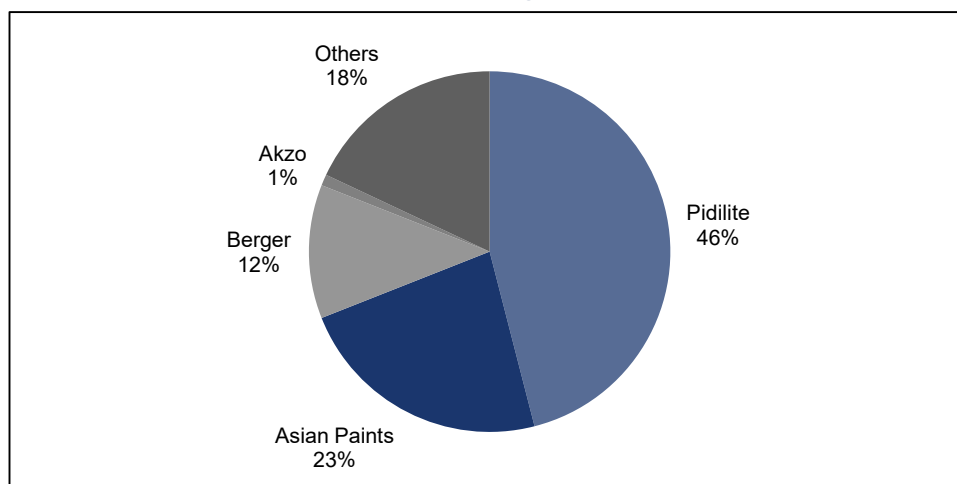
Analysing the waterproofing market in India

The waterproofing/construction chemicals market is a sunrise sector in India with an estimated market size of ~Rs60bn and is growing at CAGR of 15-20%. Apart from steady expansion of the market, we expect value migration from unorganised to organised sector.

Key players and market shares

The waterproofing market is dominated by Pidilite with market share of ~46%. Asian Paints (23%) and Berger Paints (12%) are other major players. Akzo Nobel, Kansai Nerolac and Astral Poly are recent entrants in the waterproofing/construction chemicals market. There are global players such as Fosroc, SIKA, BASF but these players largely operate in B2B markets.

Chart 1: Market shares in waterproofing market

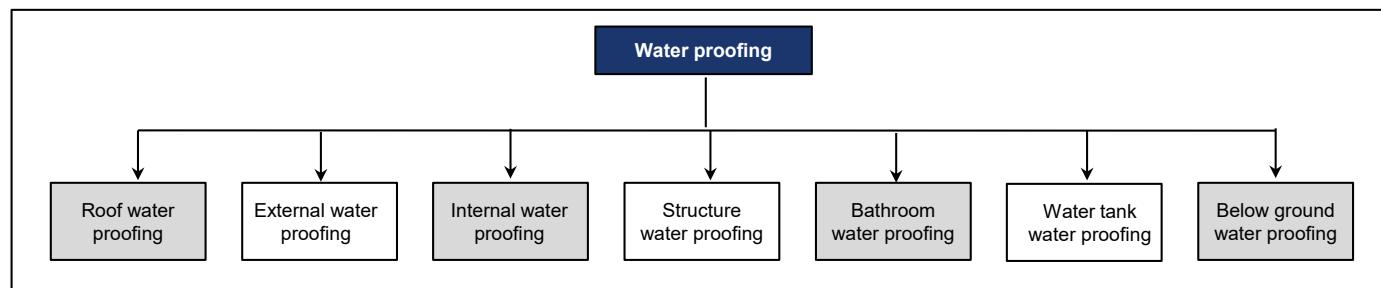


Source: Company data, I-Sec research

Major segments of waterproofing market

The waterproofing market is divided in seven sub-segments:

Chart 2: Sub-segments of waterproofing market

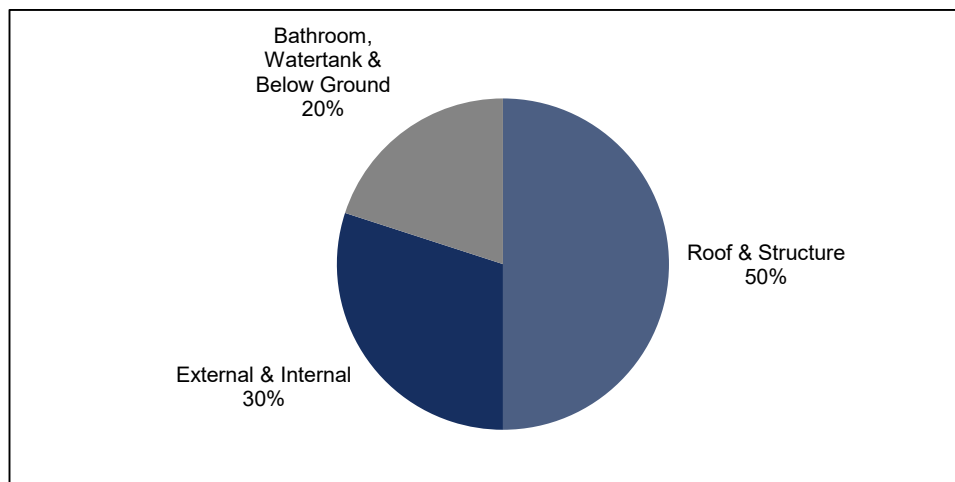


Source: Company data, I-Sec research

Breakup of waterproofing market

The waterproofing market is divided into seven sub-segments. External waterproofing and roof waterproofing are the largest segments whereas bathroom waterproofing and below-ground waterproofing segments are smallest. We also note external waterproofing is growing faster than rest of the market on the back of aggressive investments by paint companies.

Chart 3: Indicative breakup of waterproofing market



Source: Company data, I-Sec research

Presence of key companies across sub-segments

Pidilite is present in most sub-segments of the waterproofing market. Following shows the presence of key players:

Table 1: Presence of key companies across waterproofing sub-segments

	Pidilite	Asian Paints	Berger	Akzo	Kansai	Astral
Roof	Y	Y	Y	N	N	Y
External	Y	Y	Y	Y	Y	Y
Internal	Y	Y	Y	Y	Y	N
Structure	Y	Y	Y	N	N	Y
Bathroom	Y	Y	Y	N	N	Y
Water tank	Y	Y	Y	N	N	Y
Below ground	Y	N	N	N	N	Y

Source: Company data, I-Sec research

'Paint + waterproofing' strategy of paint companies

We believe waterproofing is a logical extension for paint companies as consumers usually do waterproofing work while painting their houses. Companies such as Asian Paints and Akzo Nobel offer waterproofing products to be used while painting houses. Paint companies have also launched basecoats with waterproofing abilities to be used before painting. Berger has introduced putty and primer with waterproofing properties.

Chart 4: Waterproofing basecoat + exterior paint combination by Akzo Nobel



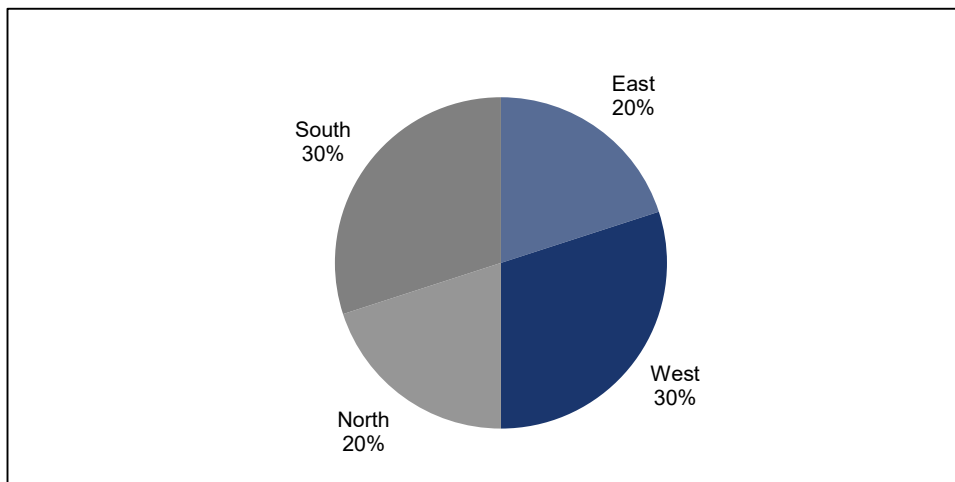
Source: Company data, I-Sec research

Geographical revenue breakup of waterproofing segment

Coastal areas face more problems of water leakage (higher moisture in air and higher rainfall), hence require higher investments in waterproofing. We note dry regions with relatively lower rainfall such as North India have comparatively lower need of waterproofing products.

As West and South regions account for higher revenue share of waterproofing segment, we expect Asian Paints (strong brand equity + distribution in South India) to be a major beneficiary. We believe Kansai, which generates higher revenues from North India (revenue share of 50%), has relatively lower growth potential in waterproofing segment.

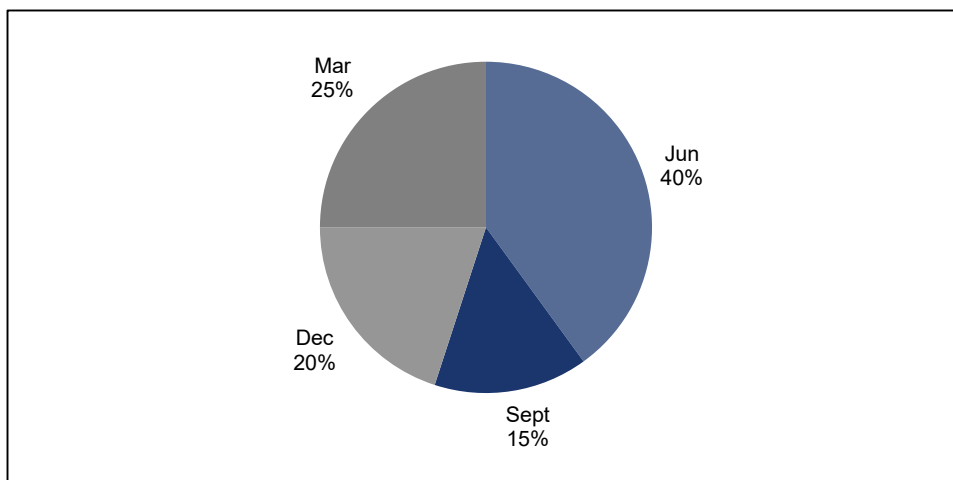
Chart 5: Geographical revenue breakup of waterproofing market



Source: Company data, I-Sec research

High-seasonality industry

The waterproofing industry generates highest revenues in April-June quarter, i.e. just before beginning of monsoon. July-September quarter is smallest due to monsoon. Delay in monsoon or prolonged monsoon would have short-term impact.

Chart 6: High-seasonality industry (quarter-wise revenue breakup)

Source: Company data, I-Sec research

'Problem solution' category and market creation opportunities

Our channel checks indicate the trade margin in waterproofing is ~5% (similar to paints). However, we note there are negligible promotions in waterproofing. Being a 'problem-solution category', there are negligible consumer promotions.

However, companies push their waterproofing products through the prescription route, i.e. plumber channel. Pidilite (*Dr. Fixit*) has started *Dr. Fixit* academy, which certifies the participating plumbers. It gives them recognition in front of customers. Pidilite can leverage the influence of plumbers on customers to showcase its products.

Other players offer warranty up to 10 years on their waterproofing products.

Table 2: Trade margins, promotions and market-creation opportunities

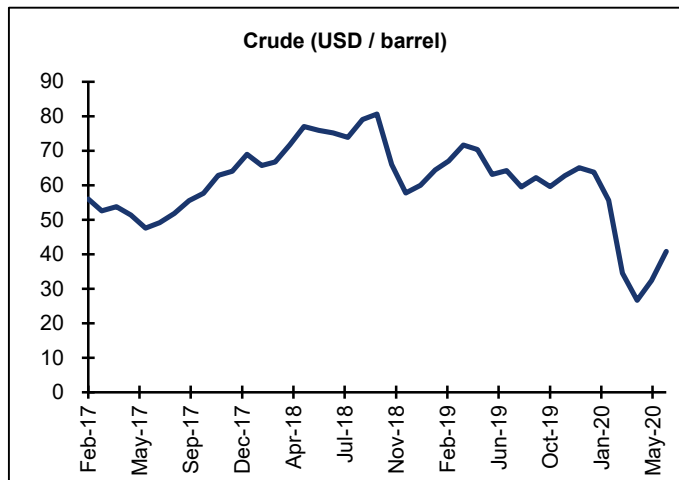
Consumer promotion spends	Particulars
Trade margins	5% + Trade schemes
Promotions	Negligible considering 'problem solution' category
Prescription route	Dr. Fixit academy by Pidilite – Leveraging plumber influence by giving certification to plumbers
Promise to consumers	10-year warranty

Source: Company data, I-Sec research

Key raw materials used in waterproofing products

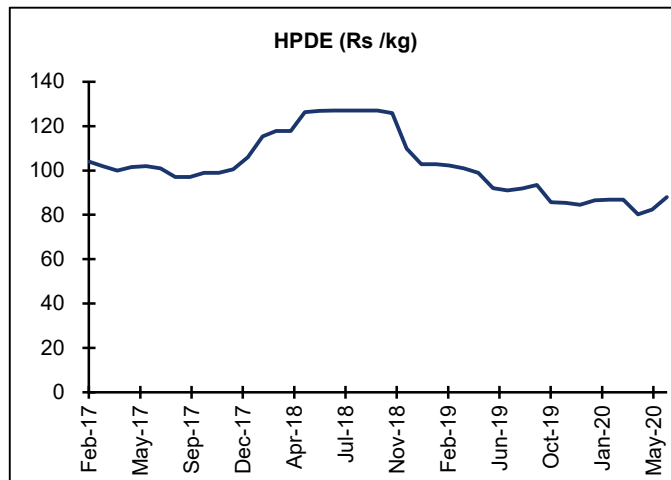
The major raw materials used in waterproofing industry are crude oil as well as crude oil derivatives such as bitumen. We do not expect any material cost pressure in the short term on waterproofing industry given lower crude oil prices and strong pricing power of the incumbent players.

Chart 7: Crude oil



Company data, Bloomberg, I-Sec research

Chart 8: HDPE (packaging material)



Revenue breakup of companies in waterproofing market

While there are many players in the waterproofing segment, we note there are six major companies. These companies have diversified organically / inorganically into waterproofing as logical extension to their existing business.

Table 3: Revenue share of companies from waterproofing segment (FY20)

Company	Revenue share (%)
Pidilite	~20%
Asian Paints	~6%
Berger	~6%
Akzo	<2%
Kansai	<2%
Astral Poly	<2%

Source: Company data, I-Sec research

Asian Paints

Asian Paints is no.2 player in waterproofing market with its *SmartCare* brand and market share of ~23%. *SmartCare* waterproofing range targets most sub-segments such as interior, bathroom, exterior and roof waterproofing. It has launched products for new construction as well as repairs.

Asian Paints has introduced differentiated products such as primer with waterproofing, putty/crack filling material with water-proofing properties.

Table 4: *SmartCare* waterproofing product portfolio

Product	Particulars
SmartCare Bathroom waterproofing	Waterproofing membrane triple layered laminated film
SmartCare APP membranes	Waterproofing membrane modified glass fibre sheet reinforced bituminous membrane
SmartCare Damp Block 2K	Two-component acrylic polymer-modified cementitious high performance coating
SmartCare EPDM Membrane	<i>SmartCare</i> EPDM membrane is a preformed elastomeric waterproofing membrane made up of high quality EPDM rubber
SmartCare Fabseal	Fast curing multi-purpose sealing, patching and mending compound that can be used in both wet and dry conditions
SmartCare Multipurpose polymer	High performance acrylic emulsion based binder
SmartCare SBS Membrane	Waterproofing membrane is an SBS-modified polyester sheet reinforced bituminous membrane
SmartCare Textured Crack Filler	Single component, acrylic crack filler with a grainy texture
SmartCare AkrylMax	Acrylic emulsion based plastic elastic sealant for sealing masonry joints
SmartCare Crack Seal	Ready to use fibre glass reinforced crack filling compound for both interior and exterior surfaces
SmartCare Crackshield	Glass fibre based product used to hide spider web like cracks on interior walls
SmartCare Damp Block	Polymer modified, flexible cementitious waterproof coating
SmartCare Unyverseal	Durable and odorless neutral silicone sealant for sealing of glass, masonry and sanitary joints
SmartCare Vitalia	Integral liquid waterproofing compound with advanced formulation and superior plasticizing additives for cement concrete, mortar and plasters
SmartCare Damp Proof	Fibre reinforced elastomeric liquid applied water proofing membrane
SmartCare Hybrid PU Sealant	Single component, moisture curing, low modulus silyl terminated polyurethane sealant for sealing of dynamic joints and cracks in interiors and exteriors
SmartCare Joint Tapes	Waterproofing of all 'L' shaped construction joints in buildings and residential areas
SmartCare Instant Leak Stop	Instant waterproofing solution.
SmartCare Damp Sheath Interior	Waterproofing primer which prevents moisture from showing on interior painted surfaces

Source: Company data, I-Sec research

Chart 9: *SmartCare* waterproofing product portfolio



Source: Company data, I-Sec research

Kansai Nerolac

Kansai Nerolac is a recent entrant in the waterproofing market. While it did have some products catering to the segment, its major step was to acquire Gujarat-based Perma Construction Aids Pvt Ltd (Perma), a waterproofing product company for a consideration of Rs291mn in Apr'19. Perma's portfolio comprises of waterproofing, adhesives, epoxy, admixtures etc.

Organically, Kansai Nerolac has launched waterproofing products as part of its exterior paints portfolio.

We believe waterproofing products account for less than 2% Kansai Nerolac's revenues.

Chart 10: Products of Kansai Nerolac in waterproofing segment



Source: Company data, I-Sec research

Akzo Nobel

Akzo Nobel has ~1% market share in the waterproofing market. It entered the market in FY19 with the brand *Dulux Aqua Tech*. Apart from waterproofing products; the company has also introduced waterproof coats as part of its exterior paints portfolio. While the waterproofing products of other companies focus on water resistance, Akzo's products focus on waterproofing and are considered technologically superior.

Table 5: Products of Akzo Nobel in waterproofing segment

Product	Particulars
Dulux Aquatech Flexible Water proof Basecoat	Premium waterproof coating with revolutionary <i>Hydroshield</i> technology bridges cracks and covers the porous wall surface with a thick protective film
Dulux Aquatech waterblock 2K	Acrylic cementitious & flexible high-performance waterproofing coating
Dulux Aquatech Water proof Basecoat	Waterproof coating with revolutionary <i>Hydroshield</i> technology bridges cracks and covers the porous wall surface with a thick protective film
Dulux Aquatech range of crack fillers	Solutions for every type of exterior interior cracks

Source: Company data, I-Sec research

Chart 11: Products of Akzo Nobel in waterproofing segment



Source: Company data, I-Sec research

Berger Paints

Berger Paints has ~12% market share in the waterproofing segment. It entered the business with the brand *Home Shield* and has launched products across key sub-segments of water proofing.

Berger has also acquired 95.53% stake in STP Limited, a waterproofing product company in H1FY20, for a consideration of Rs1.6bn.

Table 6: Products of Berger in waterproofing segment

Product	Particulars
Wallshield 2K	Prevents moisture passing through gaps in walls
Dampstop	Polymer modified cement-based product which forms strong flexible waterproof coating over the substrate
Latex shield 2K	Protective elastomeric layer over the surface and thus prevents water infiltration.
Tankshield PW	Polymer modified cementitious waterproof slurry mortar consisting of a liquid polymer and a cement-based mix
Waterproof Putty	Putty with waterproofing technology
Seal O Prime	Sealer and an undercoat with excellent hiding property
Illusion sealer	Emulsion with silicon additives – transparent film forming water-based paint for exterior surfaces
Latex plus	Latex-based liquid for waterproofing & multi-purpose repair work.
Advanced Latex plus	Styrene-Butadiene latex-based liquid for high performance waterproofing and multi-purpose repair work
Cementmix plus	Improves integral waterproofing properties of cement concrete
Crack Fill paste	Ready to use flexible putty for filling cracks in plastered surfaces.
Crack fill powder	Cement-based polymer modified material used for filling cracks on plaster surfaces
PU Roofcoat	Liquid waterproofing compound that forms a highly elastic and UV resistant membrane on cementitious surfaces.
Weathercoat Roofguard	Acrylic polymer along with reinforcing fibres, which forms a white coloured membrane-like waterproof coating over the applied surface
Weathercoat Kool & Seal	Water-based, flexible, waterproof roof/terrace/parapet coating
Proshield P/H/F	High-performance preformed water proofing membrane made of distilled bitumen modified with Atactic Polypropylene (APP)

Source: Company data, I-Sec research

Chart 12: Products of Berger in waterproofing segment



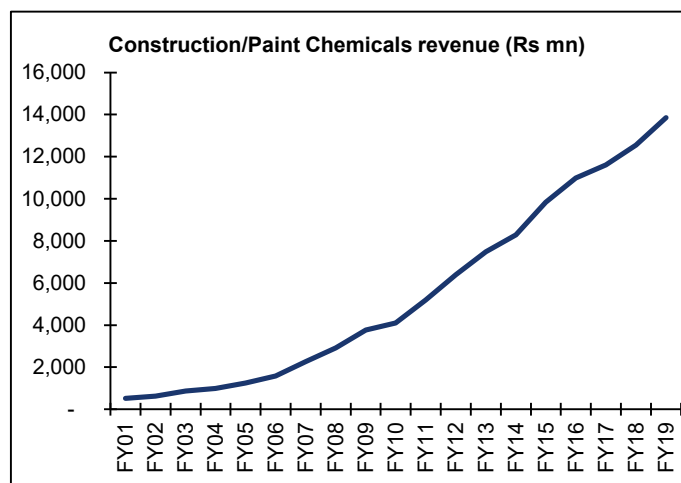
Source: Company data, I-Sec research

Pidilite

In Pidilite Industries, construction and paint chemical segment (which includes waterproofing products & construction chemicals) contributes ~20% of standalone revenues. Over the last 5/10/15 years, this segment has grown at CAGRs of ~11%/14%/20% at the consolidated level.

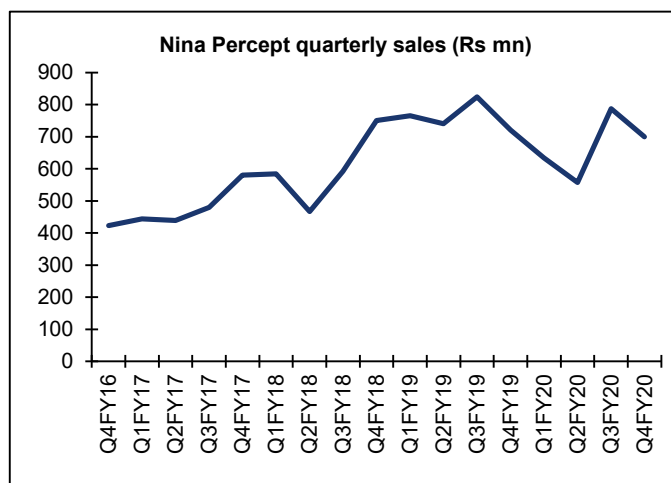
Pidilite sells waterproofing products under brand name *Dr. Fixit* and it has a domestic subsidiary Nina Percept, which provides waterproofing services and solutions to projects. Company has categorised *Dr. Fixit* and Nina Percept brands under the growth category. Pidilite has set a target to grow 2-4x GDP in the growth categories, which include brands such as *Dr. Fixit*, *Roff* and *Nina Percept*. While *Dr. Fixit* is predominantly a retail brand, *Nina Percept* is present in the B2B segment. Hence, over the last year, growth of *Nina Percept* has taken a beating due to slowdown in real estate and higher competition.

Chart 13: Pidilite's construction chemicals annual revenue trend



Source: Company data, Bloomberg, I-Sec research

Chart 14: Nina Percept (subsidiary) quarterly revenue trend



Marketing initiatives for *Dr. Fixit*

- **Pidilite launched new product called *DR. FIXIT LW+*:** A new television commercial featuring Mr. Amitabh Bachchan was aired to communicate that one litre of *Dr. Fixit LW+* needs to be mixed in every five bags of cement while constructing a new home.
- *Dr. Fixit* continues to leverage digital media for educating home owners about the right waterproofing. Apart from regular avenues such as search and social Media, *Dr. Fixit* uses innovative ways to reach out to sharply targeted people building their homes, using mobile platforms such as InMobi and Truecaller.
- *Dr. Fixit* launched *Skilled Waterproofer*, a uniquely designed programme, for specialised set of skilled waterproofer. Selected on the basis of their experience and workmanship, these waterproofer are provided with business training and tools that help them deliver a distinctive and professional waterproofing experience to consumers.

Chart 15: Top variants of Pidilite



Source: Company data, I-Sec research

Chart 16: Differentiation in branding

2. WHOLISTIC BRAND MANAGEMENT

Source: Company data, I-Sec research

Table 7: Acquisitions in construction chemicals segment by Pidilite over the years:

Company/ Brand	Year	Category	Country	Acquisition details
Nina Waterproofing Systems	FY15	Waterproofing systems	India	Nina is engaged in the business of supply and installation of waterproofing systems, including waterproofing products or thermal insulation systems for construction projects and infrastructure projects. Pidilite acquired 70% stake in the company.
Hybrid Coating Technologies	FY13	Construction chemicals	USA	Pidilite entered into a JV with Hybrid Coating Technologies Inc. for manufacture of construction chemicals. Hybrid Coating Technologies offers coatings and paints for industrial and commercial customers around the world. It has the exclusive license of patent-protected polyurethane-based coatings and paint products
Pagel Concrete Technologies	FY07	Construction chemicals	India	Acquired 75% equity stake in Pagel, at a cost of Rs6.4mn and loan contribution of Rs3.5mn. Pagel is an Indian company with technical and financial collaboration with PAGEL SPEZIAL-BETON GMBH and is engaged in the business of grouts and special mortars
Bamco	FY06	Construction chemicals	Thailand	Bamco, with a turnover of Rs86mn in 2005, is a manufacturer of speciality bitumen-based waterproofing products and had marketed its products in Thailand, Indonesia, Malaysia and Singapore.
Chemson Asia	FY05	Construction chemicals	Singapore	Chemson Asia is a Singapore-based manufacturer of waterproofing products and exterior parts. With a manufacturing base in China and distributors in Indonesia and Thailand, Chemson markets its products throughout these three countries in addition to Malaysia and Singapore, thus helping Pidilite to expand its network in Asia-Pacific.
Roff	FY05	Construction chemicals	India	Acquired Roff, a leading construction chemicals brand in India, for Rs138mn, enabling Pidilite to gain access to Roff's large product range along with its distribution network and manufacturing facilities.
M-Seal & Mr. Fixit	FY00	Sealants	India	Epoxy sealant brands acquired from Mahindra Engineering & Chemical Products Ltd (MECP), a subsidiary of M&M. Later in 2001, Pidilite launched <i>Dr. Fixit</i> range of construction chemicals.

Source: Company data, I-Sec research

Astral Poly

Astral Poly Technik (ASTRA), in last one and half years, introduced a full range of waterproofing products under its brand *Trubuild*. Adhesives and construction chemicals contributed 22.6% of overall revenues for ASTRA in FY20 at Rs25.8bn. Although the company was involved in the adhesive segment in a small way, post acquisitions of Resinova and Seal IT in FY15 it entered most segments of adhesives and construction chemicals. After stabilising both the companies and their products in the market, ASTRA's product portfolio comprised a full range of waterproofing and construction chemical products in last 1-2 years.

Trubuild offers various construction chemicals that make the protection of building effortless and effective.

Table 8: Key product portfolio of Astral

Product	Particulars
Trubuild CPS	Integral waterproofing compound specially designed for giving waterproofing to cement concrete, mortars and plasters
Trubuild BWP	An acrylic co-polymer emulsion used as a bonding agent for new substrate to old substrates, and as a cement mortar modifier that gives an excellent bond to old and new concrete
Trubuild WPL	A ready-to-use styrene butadiene latex. It is used for repairing of old constructions like floor, beams slabs, etc. and waterproofing of toilets, kitchen, bathroom and terraces
Trubuild WPC	A single component water 'dilute-able' protective coating to be applied over exterior surface of walls to prevent entry of water and moisture through the surface
Trubuild WRP	Non-flammable water soluble solution designed to incorporate water repellency to varied surfaces like sandstone, marble, concrete, exposed bricks and terracotta tiles
Trubuild WTS	A single component water thinnable polymeric liquid for sealing porosity of sandstone, concrete and other porous surfaces
Trubuild Tile Grout	Polymeric cement-based tile grout specially designed to create non-shrink, waterproof tile joints
Trubuild Tanking slurry	Blend of Portland cements, quality graded aggregate and chemical modifiers, which provide a waterproof coating for use below and above ground for cellars, retaining walls, and tanks
Trubuild ILP651	A single component cementitious ready-to-use fast-setting mortar for plugging water leakages

Chart 17: Top variants



Source: Company data, I-Sec research

Valuation summary – Companies in waterproofing segment

The waterproofing segment offers healthy growth of ~15% per annum with profitability and return ratios of >20%. While there are no listed pure-play companies in the segment, we believe investors can play the theme through Pidilite Industries and/or paint companies.

Table 9: Key financials of companies in waterproofing segment

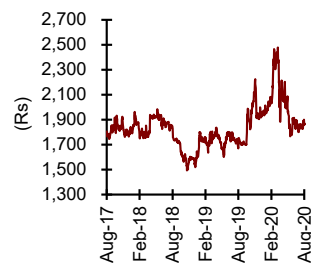
Company	CMP (Rs)	TP (Rs)	Upside (%)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market Cap	
					FY21E	FY22E	FY21E	FY22E		(Rs bn)	(US\$ bn)
Akzo Nobel	2,000	2,350	18	BUY	43	34	28	22	0.5	84	1.1
Asian Paints	1,797	1,900	6	ADD	64	51	40	33	64.4	1,624	21.3
Astral Poly	1,070	1,007	(6)	ADD	60	43	37	28	1.5	162	2.2
Berger Paints	550	510	(7)	HOLD	93	75	56	47	10.4	492	6.5
Kansai Nerolac	483	460	(5)	HOLD	56	43	34	27	1.7	246	3.2
Pidilite	1,365	1,330	(3)	HOLD	74	51	52	37	18.2	698	9.7

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)		CAGR (FY20-22E) (%)		
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	Revenues	EBITDA	PAT
Akzo Nobel	3.8	3.1	7	6	32	26	16	18	16	18	1	1	5
Asian Paints	8.4	6.8	15	13	49	40	25	28	22	25	12	12	12
Astral Poly	6.5	5.3	10	8	43	32	17	21	19	25	9	14	24
Berger Paints	9.4	7.9	18	16	69	57	20	22	17	19	4	4	4
Kansai Nerolac	5.6	4.4	6	6	42	33	12	14	11	14	5	10	9
Pidilite	11.3	9.0	14	12	61	45	19	25	25	32	2	9	10

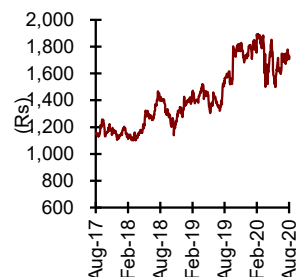
Source: Company, I-Sec research

Price chats

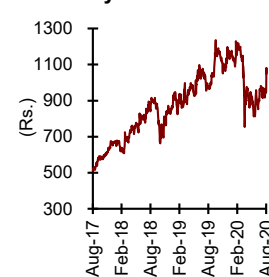
Akzo Nobel



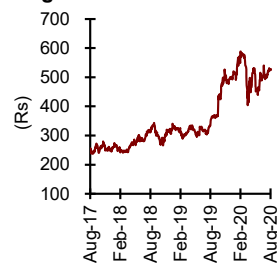
Asian Paints



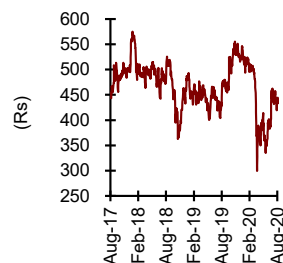
Astral Poly



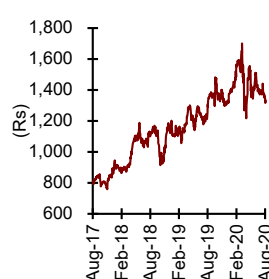
Berger Paints



Kansai Nerolac



Pidilite



Source: Bloomberg

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