

PAKISTAN



*Saeed A Baloch*, Lahore, reports on how Pakistan's paint and coatings industry has displayed underlying strength and is poised for a post-COVID-19 recovery

# Pakistan poised for recovery

Pakistan's paint and coatings sector is understandably suffering from COVID-19, which has hit the country hard with 276,288 cases and 5892 deaths as of July 28. But the industry has been expanding and its executives hope for a sustained recovery once the pandemic has abated, ending the current series of rolling smart lockdowns targeting infection hotspots.

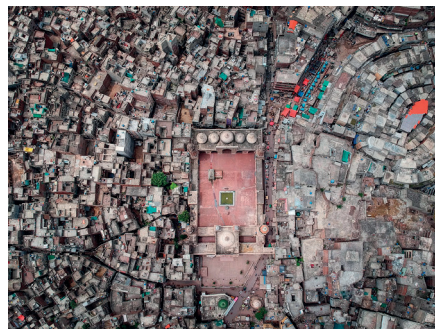
Indeed, paint and coatings sales within Pakistan have been growing by between 5-10%/yr, according to the Pakistan Coatings Association (PCA). Its Chairman Moazzam Rasheed says the current annual market for decorative paints, surface coatings and associated chemicals in Pakistan is between Pakistan Rupees PKR33bn (US\$197M) to PKR38bn (US\$228M). Research from the Pakistan Credit Rating Agency (PACRA) also demonstrates that this market is large, potentially taking more unorganised sector sales (dominant in rural and semi-urban areas) into account – saying it is worth PKR50bn (US\$301M) – with 64% of sales being unbranded and sold through markets and sole traders. The PCA, by contrast thinks the organised sector is larger, accounting for around 74% of total sales.

Both organisations agree that the country's paint and coatings sector has grown fast over the past five years, despite political instability leading to the election of Imran Khan as Prime Minister in 2018 and ongoing liquidity problems for Pakistani businesses. PACRA said that Pakistan paint industry sales grew 6-7% on average between 2014 and 2018, with infrastructure projects funded by the China Pakistan Economic Corridor (CPEC) project being a key driving force. That said, construction activity has slowed since the election of PM Khan's Pakistan Tehreek-e-Insaf (PTI) government, which PACRA says has dampened growth.

■ EXPORTS

According to a report from market researcher TrendEconomy, the value of exports of paints and varnishes including enamels and lacquers from Pakistan in 2019 stood at US\$7.89M, of which the lion's share – US\$7.62M – went to Afghanistan, while the rest were sold to Qatar, Kenya, Kazakhstan, Liberia and Bangladesh. The PCA says that exports are larger, however, being worth US\$16.95M in 2019, with 22 manufacturers earning precious foreign exchange. Trade data from Pakistan indicates that these overseas sales could actually have earned more than US\$19M.

*“As many as 2000 unregistered companies in the unorganised sector are functioning just in Lahore, the capital city of Punjab province.”*



An aerial shot of Lahore, photo courtesy of Alisjafri CC BY-SA 4.0

According to Moazzam, there are currently around 22 major paint producing units in the organised paint and coatings sector, with more than 350 major units operating in the unorganised sector. Multinational companies also play an important role, with AkzoNobel Pakistan, Berger Paints, ICI, Nippon Paint and Kansai Paints manufacturing and selling paints and coatings within Pakistan. Major Pakistan companies are also prospering, such as Master Paints, Brighto Paints, Happilac Paints, Diamond Paint Industries, Buxly Paints and Nelson Paints. Unorganised manufacturers can also be small and this kind of manufacturer is extremely numerous: “As many as 2000 unregistered companies in the unorganised sector are functioning just in Lahore, the capital city of Punjab province,” claimed Chaudhary Muhammad Ali, a wholesale dealer of paints in Lahore's Shah Alam Market.

■ POST COVID-19

Once COVID-19 is in the past, these paint manufacturers face significant potential to grow sales. One factor is Pakistan's general economy, which despite turbulence in specific sectors grew steadily on average, with World Bank data showing that the countries overall GDP in 2010 was US\$177bn, rising to US\$278bn in 2019. Moazzam cites alternative data indicating that Pakistan's economy has already exceeded an annual size of US\$300bn, with healthy growth in construction, manufacturing and services, all of which have encouraged purchases of paint and coatings.

Looking ahead, he said: “Demand in Asia, especially in Pakistan, will rise faster than elsewhere in the world and the region now accounts for 50-55% of global consumption in terms of volumes.” Decorative paints, surface coating and

special associated chemicals continue to be “in demand in Pakistan” with sales “expected to continue increasing,” he hoped. One particular strength is the diversity of the sector says Moazzam, which spans automotive paints, general industrial finishes, powder coatings, protective coatings, vehicle refinishes business, road safety lines, marine coatings printing inks, auxiliary products, adhesives and more.

As a result, its demand for raw material ingredients is high and similarly diverse, with Moazzam stressing the regular use of about 300 different types of raw materials and pigments, including imports, of chemicals like zinc oxide and titanium oxide. Demand for such inputs has been rising along with the growth of the industry, offering opportunities for Pakistan’s chemicals sector.

■ THE CURRENT PICTURE

Chaudhary said decorative and architectural paints commanded around 70% of total market share within Pakistan. In his business, which is based in the major urban centre of Lahore, the proportion of sales commanded by the organised sector is higher than as estimated by PACRA for all of Pakistan, with multinationals alone commanding 65% to 70% of sales.

As far as per capita consumption is concerned, Chaudhary said given the extent of unorganised sales, “it’s very difficult to assess... but I am sure that it’s very low as compared to Europe and Middle Eastern countries.”

Despite this, Moazzam says paint manufacturers contribute well to the national economy: “The production through 5000 or more manufacturers is sold

through more than 14,000 sales outlets employing and supporting five million people [through family incomes] across the country.”

As a result, he and the PCA have called on the government to treat the industry with more care: “We are suffering a lot as a result of discriminating policies of the government, especially by not releasing the industry’s [tax] refunds claims,” he said, claiming the government owes tax refunds to the paint and coatings industry for 2016-2019 worth PKR1.5bn (US\$9M).

As far as trade with neighbouring countries, Moazzam said he was happy with Pakistan’s commerce with Afghanistan and other central Asian states, such as Tajikistan, but trade with India continues to be restricted by politics, with heightened tensions caused by an attack on Indian soldiers in India-controlled Kashmir in 2019 dampening the prospects of any trade liberalisation: “If trade with India is opened, our industry will be more than willing to trade across the border,” said Moazzam. He argued the quality paints being produced in Pakistan were better than the output of other south Asian countries and so the prospects for local exports were healthy.

First, though, the industry needs to ride out the impact on Pakistan purchases of COVID-19 lockdowns. Chaudhary estimated that COVID-19 has affected 60% of his business, “but we hope the situation will start improving in the near future.” ■

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**Website:** www.internationalnewsservices.com  
**Tel:** +44 (0)207 193 4888