Berger Paints India Limited

September 14, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Commercial Paper	700.00 (Enhanced from 500.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term instruments	**700.00** **(Rs. Seven Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of Berger Paints India Limited (BPIL) continues to derive strength from BPIL's established position in the Indian paints industry, varied product portfolio with established brand name and wide distribution network with manufacturing facilities spread across India. The rating also takes comfort from its strong financial risk profile marked by robust capital structure, healthy debt coverage indicators and strong liquidity. BPIL recorded relatively stable financial performance in FY21 (refers to the period April 1 to March 31) despite the impact of the COVID-19 pandemic, given the strong business risk profile of the company and its positioning in the industry.

The company has been undertaking continuous addition of capacity to maintain its market share. However, with the expansion and routine capex envisaged to be funded entirely out of internal cash accruals, the financial risk profile is expected to remain strong.

The above rating strengths mostly offset the inherent risks associated with volatility in key raw material prices and foreign currency exposure risk; and its presence in a competitive industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade: Not Applicable

Negative Factors - Factors that could lead to negative rating action/downgrade

- Significant decline in the scale of operations with total operating income (TOI) less than Rs.4,500 crore and deterioration in PBILDT margin to less than 15% on a sustained basis
- Deterioration in overall gearing (>0.5x) and Total debt/GCA (> 2x) on a sustained basis.
- Significant decline in cash and liquid investments below Rs.250 crore on a sustained basis adversely impacting the liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Established position in the Indian paint industry

The organised domestic paint industry is oligopolistic in nature with top four players controlling major market share. BPIL is an established player in the organised paint market, coming second in the decorative paints segment in India and leader in the protective paint segment in terms of market share.

Pan-India presence in terms of both distribution network and manufacturing facilities

BPIL has a strong distribution network spread across India consisting of over 25,000 dealers and more than 160 stock points, which has helped improve its penetration in the decorative segment. Furthermore, the company has strategically set up its manufacturing facilities across the country in order to cater to demand in all the major regions.

Varied product portfolio with established brand name

BPIL's revenue is dominated by the decorative paint segment, however, it also has presence in other segments namely, general industrial and automotive, powder coatings and the protective segment. BPIL's R&D efforts pave the way for introduction of innovative products to suit the evolving customer needs and develop a wide product portfolio. Its range of products include water-based and solvent-based paints and interior and exterior paints. Popular brands of the company are *Silk Breathe Easy, Weathercoat Champ, Luxol XTRA, Luxol 7 in 1*. Furthermore, in FY21, BPIL forayed into the hygiene segment with the introduction of hand sanitizer, floor cleaner and anti-microbial powder coatings.

1*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Continuous addition of capacity to maintain its market share
BPIL has been regularly increasing its capacity, organically and inorganically, to meet the growing per capita paint consumption. The company is presently setting up a greenfield project at Sandila (UP) Industrial Area in phases. The project cost is expected to be about Rs.800 crore which will be funded entirely out of internal accruals. Out of this, around Rs.220 crore has already been incurred till August 2021. The commercial production is expected to start in Q1FY23 with ramp-up in a phased manner.

Stable performance despite the COVID-19 pandemic
Despite the disruptions caused by the outbreak of COVID-19 pandemic, the company reported stable operations in FY21. The TOI of the company increased by about 6% on a Y-o-Y basis to Rs.6,021 crore. The growth in TOI was driven by growth across all segments (the decorative segment in particular). Growth was also witnessed at the lower end of the product segment (putty, distemper, primer, etc). The PBILDT margin improved to 18.22% in FY21 as against 16.83% in FY20 on account of reduction in the cost of raw material with significantly lower crude oil prices in the first half of the year and cost rationalisation measures undertaken by the company. With healthy PBILDT and continued low finance costs, the interest coverage ratio continued to remain comfortable at 33.02x in FY21 (PY: 29.31x in FY20).
During Q1FY22, the company earned PAT of Rs.135 crore on a TOI of Rs.1,635 crore as against PAT of Rs.185 crore on a TOI of Rs.1,818 crore in Q4FY21. Lower revenue and profitability were on account of the impact of the second wave of COVID-19 and increase in the raw material prices. However, with the price hikes undertaken by the company, the increase is expected to be absorbed going forward resulting in stable PBILDT margins.

Robust capital structure and debt coverage indicators
The adjusted overall gearing (including corporate guarantee extended for debt in some subsidiaries and associates) of the company improved to 0.21x as on March 31, 2021, as compared with 0.36x as on March 31, 2020, due to reduction in working capital borrowings on the back of healthy generation of cash flow from operations, decline in outstanding corporate guarantees and accretion of profits to networth. Debt coverage indicators, too, continued to remain comfortable. The company does not have plans to avail additional term debt in the medium-term and the borrowings is likely to consist of only working capital. The outflow towards capex would be funded through internal accruals which may result in increase in working capital borrowings, albeit capital structure is expected to remain comfortable.

Stable demand prospects
The paint industry can be broadly split into decorative and industrial segment. There is immense headroom for the domestic market to grow in the long term as India's per capita consumption of paints is far behind the global average despite the huge market size. Going forward, the demand prospects for the Indian paint industry looks promising on the back of rise in disposable income of the average middle class, urbanization, growing rural markets, shortening of repainting cycles, increase in the sale of premium-end products and launch of innovative products.

Key Rating Weaknesses
Exposure to volatility in raw material prices
Cost of raw materials constituted about 70% of its total cost of sales in FY21. A significant proportion of the raw materials are derivatives of crude oil. Other major raw materials include titanium dioxide (TiO_2) which is majorly imported, and its price is driven by global demand and supply. Despite decorative segment contributing to 80% of the total sales where the company is usually able to pass on the increase in raw material prices, competition from the organized and unorganized players does limit pricing to an extent. In the industrial segment, susceptibility of the profit margins to commodity price volatility is higher, where the finished goods pricing is through unilateral agreements and involve negotiations. Hence, the profitability of the company is susceptible to the raw material price fluctuation risk.

Foreign currency exposure risk
BPIL imports around one third of its raw material requirement, mainly pigments such as TiO_2. However, the company does not have any major exports. Furthermore, the company does not have a formal uniform hedging policy for its forex exposure and as articulated by the company management it makes informed buying and hedging decisions according to market dynamics. This exposes the company to inherent foreign currency fluctuation risk in addition to commodity price exposure.

Competitive industry
The Indian paint industry is characterised by few large players in the organised segment controlling significant market share and presence of small and regional players in the unorganised segment. BPIL remains exposed to significant competition from both the organised and unorganised sector players for its various product segments. However, with constant capacity addition and effective marketing spends, the company has been able to maintain its market share and sustain itself as the second-largest player in the industry.

Liquidity: Strong
BPIL has strong liquidity in the form of unencumbered liquid investments (mutual funds/fixed deposits) of Rs.415.84 crore as on September 5, 2021. The available liquidity and envisaged internal generations are expected to comfortably meet its capex requirement as well as guaranteed term debt repayment obligations. Furthermore, the average utilisation of its sanctioned fund-based working capital limits (including commercial paper) was moderate at about 51% for the trailing 12 months ended August 2021.

Analytical Approach: Standalone; along with factoring in the support to be extended to subsidiaries and joint ventures.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financials Ratio-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Consolidation

About the Company
BPIL, incorporated in 1923, is one of the leading manufacturers and sellers of paints and varnishes in India. It is present in the decorative paint segment (80% of the sales) and the industrial segment, namely, general, automotive, protective coatings and powder coatings. BPIL has 13 manufacturing plants and 164 sales depots across India. Its decorative segment includes brands such as *Weathercoat, Luxol, Silk* and *Easy Clean*. The Berger group (comprising BPIL, its subsidiaries and associates and its other group companies) also has an international presence in Russia, Nepal and Bangladesh and in certain countries of Europe. The current promoters of the Berger group are Delhi-based, Dhingra brothers, Mr K. S. Dhingra and Mr G. S. Dhingra, who had acquired BPIL in the year 1991 from the UB group. Prior to this acquisition, BPIL was operating in India under various other promoter groups since 1923.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	5,692	6,021
PBILDT	958	1,097
PAT	699	681
Overall gearing (times)	0.21	0.15
Interest coverage (times)	29.31	33.02

A: Audited

In Q1FY22, BPIL achieved PAT of Rs.135 crore on a TOI of Rs.1,635 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper (Standalone)	-	-	7-364 days	700.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper (Standalone)	ST	700.00	CARE A1+	-	1)CARE A1+ (18-Mar-21)	1)CARE A1+ (19-Mar-20)	1)CARE A1+ (25-Mar-19)

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper (Standalone)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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