

## Berger Paints India Limited

August 17, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Commercial paper	1,000.00 (enhanced from 700.00)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total short-term instruments</b>	<b>1,000.00</b> <b>(₹ One thousand crore only)</b>		

Details of instruments 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 BPIL's strong financial risk profile marked by healthy return indicators, robust capital structure along with strong liquidity and debt coverage indicators. The company has been undertaking regular capacity addition to maintain its market share. However, with the expansion and routine capex envisaged to be funded entirely out of its healthy internal cash accruals, the financial risk profile is expected to remain strong.

BPIL's total operating income (TOI) witnessed healthy growth in FY22 (refers to the period April 1 to March 31) and Q1FY23 driven by growth in both sales volume and realisation. The TOI grew by about 29% in FY22 and by about 53% in Q1FY23 on a y-o-y basis. While the volume growth was driven by the increase in demand and various marketing initiatives undertaken by the company, the realisations have increased due to several price hikes taken by the company during this period to pass on the increase in the input cost. Nevertheless, the operating margin moderated in FY22 due to the inability to completely pass on the hike in the raw material cost.

The above rating strengths mostly offset the inherent risks associated with volatility in the prices of key raw materials (mostly being derivatives of crude oil) and foreign currency exposure risk; and BPIL's presence in the 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 volume-driven decline in TOI by over 20% or sharp decline in its market share in the domestic paint industry.
- The PBILDT margin < 12% on a sustained basis.
- Large debt-funded capex or acquisition adversely impacting its leverage and debt coverage indicators, with total debt/PBILDT (> 2x) on a sustained basis.
- Significant decline in cash and liquid investments 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 more than 50,000 dealers and retailers with around 180 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 to cater to demand in all the major regions. The company has also been opening company-owned-company-operated (COCO) stores across the country to increase its sales.

**Varied product portfolio with well-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 research and development (R&D) efforts pave the way for continuous 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 include Silk Breathe Easy, Weathercoat Champ, Luxol XTRA, and Luxol 7 in 1.

**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 ₹900 crore (revised from earlier estimate of ₹800 crore), which will be funded entirely out of the internal accruals. Out of this, around ₹745

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

crore has already been incurred till June 2022. The commercial production is expected to start in Q3FY23 (revised from earlier expectation of Q1FY23) with ramp-up in a phased manner. Furthermore, the company is also doubling its capacity of industrial paint by 1,500 MT in its Jejuri plant and expanding its capacity of emulsion in its Rishra factory in West Bengal.

**Increase in TOI despite COVID-19 pandemic; albeit moderation in profitability margins in FY22:** Despite the intermittent disruptions caused by COVID-19 pandemic, the company reported a y-o-y growth of 28.7% in its consolidated TOI in FY22. The growth was driven by growth across all segments, such as decorative segment, general industrial and automotive segment along with the protective and infrastructure coating segment. The volume growth was around 20% in FY22.

The PBILDT margin witnessed a dip from 17.36% in FY21 to 15.23% in FY22 on account of significant increase in the cost of material consumed with increasing raw material prices, a large part of which are crude oil derivatives. Also, rupee depreciation added to the cost of raw materials as the company meets around 35% of its raw material requirement from imports. While higher raw material prices resulted in gross margins reducing by around 500 bps, the moderation in its PBILDT margin was restricted to around 200 bps due to benefits of operating leverage. Nevertheless, the PBILDT interest coverage ratio continued to remain very comfortable in FY22.

In Q1FY23, the TOI witnessed a significant y-o-y growth of 54% backed by growth in both volumes (around 40%) and price realisations. With increase in the scale of operations, the PBILDT margin also witnessed an improvement from 13.22% in Q1FY22 to 14.80% in Q1FY23.

**Robust capital structure and debt coverage indicators:** The capital structure of the company remains robust with overall gearing at 0.33x as on March 31, 2022. There was marginal moderation from 0.24x as on March 31, 2021, majorly on account of increase in the working capital borrowings resulting out of higher raw material prices.

The debt coverage indicators continue to remain comfortable. The company does not have any plans to avail additional term debt in the medium term and the incremental borrowings are likely to arise from its growing working capital requirement. The outflow towards capex would be funded through internal accruals, which may result in increase in the 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 segments. There is significant 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, urbanisation, growing rural markets, shortening of repainting cycles, increase in the sale of premium-end products and launch of innovative products.

#### **Liquidity: Strong**

BPIL has a strong liquidity profile characterised by healthy cash generation and unencumbered liquid investments (standalone) in the form of mutual funds and fixed deposits amounting to ₹117.65 crore as on August 03, 2022. The available liquidity and envisaged healthy internal cash generations are expected to comfortably meet its capex requirements as well as the low term debt repayment obligations. With a consolidated overall gearing of 0.33x as on March 31, 2022, the company has sufficient gearing headroom, to raise additional debt for its capex, if required. The average utilisation of its fund-based working capital limits (including commercial paper) stood at around 80% for the trailing 12 months ended July 2022. However, the company's fund-based limits have been assessed at an enhanced amount of ₹1,000 crore by its consortium lenders in July 2022, having increased from ₹700 crore. The tie-up of enhanced limits has been completed in August 2022, and the same is expected to further shore-up its liquidity.

#### **Key rating weaknesses**

**Susceptibility of operating margin to raw material price fluctuation:** The cost of raw materials consumed constituted around 73% of the total cost of sales of BPIL in FY22 (FY21: 69%). A significant proportion of the raw materials, such as mineral turpentine oil and phthalic anhydride, are derivatives of crude oil. Other major raw materials include titanium dioxide (TiO<sub>2</sub>) for pigments, which is majorly imported and the prices of which are driven by global demand and supply factors. Despite decorative paint segment contributing around 80% of the total sales wherein the company is usually able to pass on the increase in raw material prices, competition from the organised and unorganised players does limit pricing flexibility to an extent. In the industrial segment, susceptibility of the profit margins to commodity price volatility is relatively 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 35% of its raw material requirement, mainly pigments, such as Titanium Dioxide from countries like China, Thailand, South Korea, Taiwan, etc. In FY22, the total imports of the company (at standalone level) stood at around ₹1,167.45 crore as against ₹672.17 crore in FY21. However, the company does not have any major exports. 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 foreign currency fluctuation risk in addition to commodity price fluctuation risk. The company reported forex loss of ₹6.45 crore in FY22 against loss of ₹14.76 crore in FY21.

**Competitive industry:** The Indian paint industry is characterised by presence of few large players in the organised segment who control significant market share, while there are some smaller regional players in the unorganised segment as well. BPIL remains exposed to the significant competition from both the organised and unorganised sector players for its various product segments. However, with regular 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.

#### Analytical approach: Consolidated

Earlier, CARE Ratings Limited (CARE Ratings) had taken a standalone view along with factoring support extended by BPIL to its subsidiaries/joint ventures (JVs). However, considering the strong operational and financial linkages of the company with its subsidiaries and JVs, the approach has been changed to Consolidated. The details of entities being consolidated in BPIL as on March 31, 2022, is placed as **Annexure-6**.

#### Applicable Criteria

[Criteria on assigning 'Outlook' or 'Credit watch' to credit ratings](#)

[Policy on default recognition](#)

[Rating methodology: Manufacturing companies](#)

[Criteria for short-term instruments](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of Non-financial sector entities](#)

[Consolidation](#)

#### About the Company

BPIL, incorporated in 1923, is one of the leading manufacturers and sellers of paints and varnishes in India with an established brand. It is present in both the decorative paint segment (around 80% of the sales) and the industrial segment, namely, general, automotive, protective and powder coatings. BPIL has 24 manufacturing plants in India (including plants of subsidiaries in India), two in Nepal, one each in Poland and Russia and around 180 stock stations. 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 eight countries, including Russia, Nepal, Bangladesh, and in certain countries of Europe. The current promoters of the Berger Group are the Delhi-based Dhingra brothers, K. S. Dhingra and 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 Consolidated Financials (₹crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	6,811.98	8,765.64	2,759.70
PBILDT	1,182.37	1,334.93	408.31
PAT	719.72	832.95	253.71
Overall gearing (times)	0.24	0.33	NA
Interest coverage (times)	26.81	26.32	25.11

A: Audited; UA: Unaudited; NA: Not Available

**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 Facilities

Name of the Instrument*	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper	INE463A14MB8	20-Jun-22	Market driven	7-364 days	250.00	CARE A1+
Commercial paper	INE463A14MD4	23-Jun-22			70.00	CARE A1+
Commercial paper	INE463A14MC6	24-Jun-22			110.00	CARE A1+
Commercial paper	INE463A14ME2	29-Jun-22			50.00	CARE A1+
Commercial paper	INE463A14MF9	19-Jul-22			50.00	CARE A1+
Commercial paper	INE463A14MF9	20-Jul-22			25.00	CARE A1+
Commercial paper	INE463A14MG7	25-Jul-22			60.00	CARE A1+
Commercial paper	INE463A14MH5	29-Jul-22			40.00	CARE A1+
Commercial paper - proposed	-	-			345.00	CARE A1+

\*Commercial paper outstanding as on August 3, 2022

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper	ST	1000.00	CARE A1+	-	1)CARE A1+ (14-Sep-21)	1)CARE A1+ (18-Mar-21)	1)CARE A1+ (19-Mar-20)

**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 Instrument	Complexity Level
1	Commercial paper	Simple

**Annexure-5: Bank Lender Details**To view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of entities being consolidated in BPIL:**

Name of Company	Country	Shareholding
<b>Direct subsidiaries</b>		
Berger Jenson & Nicholson (Nepal) Private Limited	Nepal	100%
Beepee Coatings Private Limited	India	100%
Berger Paints (Cyprus) Limited	Cyprus	100%
Lusako Trading Limited	Cyprus	100%
SBL Specialty Coatings Private Limited	India	100%
<b>Indirect subsidiaries</b>		
Berger Paints Overseas Limited [100% Subsidiary of Berger Paints (Cyprus) Limited]	Russia	100%
Bolix S.A. (100% Subsidiary of Lusako Trading Limited)	Poland	100%
Build-Trade BIS sp. z.o.o. (100% Subsidiary of Bolix S.A.)	Poland	100%
Bolix UKRAINA sp. z.o.o. (100% Subsidiary of Bolix S.A.)	Ukraine	100%
Soltherm External Insulations Limited (100% Subsidiary of Bolix S.A.)	United Kingdom	100%
Soltherm Isolations Thermique Exterieur SAS (100% Subsidiary of Bolix S.A.)	France	100%
Berger Hesse Wood Coatings Private Limited	India	51%
Berger Rock Paints Private Limited	India	51%
STP Limited	India	95.53%
<b>Joint Ventures</b>		
Berger Becker Coatings Private Limited	India	48.98%
Berger Nippon Paint Automotive Coatings Private Limited	India	49.00%
Surefire Management Services Ltd ("SMS").	United Kingdom	75.00%

**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@careedge.in](mailto:care@careedge.in) for any clarifications.

## Contact us

**Media contact**

Name: Mradul Mishra  
Phone: +91-22-6754 3596  
E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst contact**

Name: Mamta Muklania  
Phone: +91-33-4018 1651  
E-mail: [mamta.khemka@careedge.in](mailto:mamta.khemka@careedge.in)

**Relationship contact**

Name: Lalit Sikaria  
Phone: +91-33-4018 1607  
E-mail: [lalit.sikaria@careedge.in](mailto:lalit.sikaria@careedge.in)

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