

Berger Paints India Limited

March 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Commercial Paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	500.00 (Rs. Five Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issuance of Berger Paints India Limited (BPIL) continues to derive strength from BPIL's established position in Indian Paint Industry, varied product portfolio with established brand name, wide distribution network with manufacturing facilities spread across India and continuous addition of capacity to maintain its market share. The rating also derives strength from its strong credit profile and financial flexibility as indicated in comfortable financial performance in the past as well as in FY20 (refers to the period from April 01 to March 31) and 9MFY21, healthy capital structure & debt coverage indicators along with strong liquidity position. Further, in the current year, despite the pandemic, the company continued to reflect satisfactory performance given its strong business risk profile and its positioning in the industry.

The rating also factors the risks related to volatility associated with key raw material prices and foreign currency exposure risk. Further, the rating also takes note of the recent large capacity announcement made by a renowned player to foray into the paint business.

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:

- Decline in scale of operations below Rs.4500 crore and deterioration in operating margin below 15% on a sustained basis
- Deterioration in overall gearing (>0.5x) and Total Debt /Gross Cash Accrual (>2x) on a sustained basis
- Decline in cash and liquid investments below Rs 250 crore on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Established position in the Indian Paint Industry

The Indian Paints Industry is dominated by organized sector with top four players controlling a major market share. BPIL is an established player in the organized paint market, coming second in the decorative paints segment in India and continued to be a leader in the protective paint segment in terms of market share.

Varied product portfolio with established brand name

BPIL's revenue is dominated by the decorative 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 way for 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, interior and exterior paints. Popular Berger brands are Silk Breathe Easy, Weathercoat Champ, Luxol XTRA, Luxol 7 in 1. Further, in FY21, BPIL has also forayed into the hygiene segment with the introduction of Hand Sanitizer, Floor Cleaner and Antimicrobial powder coatings.

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

A well-established distributors system comprising of 25,000+ dealers and more than 160 stock points has helped improve penetration in the decorative segment. Furthermore, the company has strategically set up its manufacturing facilities across the country (i.e. in North, Centre, South, East, West & North East) in order to cater to demand in all the regions.

Continuous addition of capacity to maintain its market share

BPIL has been increasing its capacity, organically and inorganically, to meet the growing per capita paint consumption. The company had planned to set up a greenfield project at Sandila (UP) Industrial Area in phases. The project cost is expected to be about Rs. 600 crore which will be funded entirely out of internal accruals. Out of this, Rs.40 crore has already been incurred till Dec'2020 towards procurement of land. The commercial production is expected to start from April'2022 in a phased manner.

Comfortable financial performance in FY20 and 9MFY21

The total operating income (TOI) of the company increased marginally by 3% y-o-y to Rs.5692 crore in FY20. The growth in TOI was driven by growth across all segments, the decorative segment in particular, however; General Industrial and Automotive segment was impacted particularly in the second half of the year due to lack in demand from the automotive sector. PBILDT

margin improved from 15.68% in FY19 to 16.87% in FY20 on account of reduction in cost of raw materials as the average price of crude declined y-o-y. Interest coverage improved from 24.80x in FY19 to 29.38x in FY20.

During 9MFY21, the company earned PBILDT of Rs.794 crore on TOI of Rs.4224 crore as against PBILDT of Rs.767 crore on TOI of Rs.4517 crore in 9MFY20. The decline in revenue was on account of nationwide lock-down in April'2020. Thereafter, demand and sales performance showed continued recovery on a m-o-m basis. PBILDT margin improved from 16.98% in 9MFY20 to 18.80% in 9MFY21 on account of decrease in raw material costs in view of renegotiation with raw material suppliers.

Healthy capital structure and debt coverage indicators

The capital structure of the company is comfortable marked with low gearing of 0.21x as on March 31, 2020 (0.25x as on March 31, 2019). BPIL doesn't have any term debt obligation on a standalone level. Further, TD/GCA also stood comfortable at 0.66x in FY20 (0.97x in FY19).

Key Rating Weaknesses

Raw material price fluctuation risk

Raw materials are crucial to the manufacturing of paints with cost of raw materials consumed constituting a major cost. A significant proportion of the raw materials are derivatives of crude oil. Other major raw materials include titanium dioxide (TiO₂) 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. 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 raw material price fluctuation risk.

Foreign currency exposure risk

BPIL imports around 25% of its raw material requirement, mainly pigments such as TiO₂. However, the company doesn't have any major exports. Further, the company does not have a formal uniform hedging policy for its forex exposure and makes informed buying and hedging decisions according to market dynamics. This exposes the company to foreign currency fluctuation risk in addition to commodity price exposure.

Industry Prospects

The paints 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. Due to Covid-19 induced lockdown, the paint companies had to shut down their manufacturing units. However; with the relaxation of lockdown norms, the demand conditions have improved progressively since May'20 driven by demand in upcountry markets, but sporadic lockdowns in various states had caused some hiccups.

Going forward, the Indian paint industry look promising on the back of rise in disposable income of the average middle class, urbanization, growing rural markets, shortening of repainting cycles, increase in sale of premium-end products and launch of innovative products. However, large capacity announcement (capex of Rs 5000 crore over a span of 3 years) made by Grasim Industries Limited to foray into the paint business might cause disruption in the Indian Paint Industry. Further, this is also expected to intensify competition in the organized paint sector.

Liquidity: Strong

Liquidity is marked by strong cash accruals of Rs. 852 crore in FY20 as against lease repayment of Rs. 41 crore on a standalone level. Further, liquidity is supported by unutilized lines of credit with average utilisation of working capital limits being 51% for the last 10 months ended Jan'2021. The total liquid investments and FDs stood at Rs.403.44 crore as on February 17, 2021. The company's liquid reserves and unutilized lines are more than sufficient to meet its projected capex as well as guaranteed term debt repayment obligations. The company has not availed deferment of interest on its fund-based facilities as part of COVID 19 relief package announced by RBI.

Analytical approach: Standalone; factoring in the support to be extended to BPIL's subsidiaries and joint ventures.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Berger Paints India Limited (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 Industrial and Automotive, Protective Coatings and Powder Coatings. BPIL has 13 manufacturing plants in India and more than 164 sales depots across India. Its decorative segment includes products such as Weathercoat, Luxol, Silk, and Easy Clean. The Berger Group

(comprising BPIL, its subsidiaries and associates and its other group companies) have an international presence in Russia, Nepal, and Bangladesh and in countries of Europe.

The current promoters of the Berger Group are Delhi based, Dhingra brothers, Mr. K. S. Dhingra & 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)	FY19 (A)	FY20 (A)
Total Operating Income	5516	5692
PBILDT	865	960
PAT	436	699
Overall gearing (times)	0.25	0.21
Interest coverage (times)	24.80	29.38

A: Audited

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper- Commercial Paper (Standalone)	INE463A14JV2	Jan 18, 2021	3.54%	April 16, 2021	50.00	CARE A1+
	INE463A14JX8	Feb 18, 2021	3.51%	April 20, 2021	50.00	CARE A1+
	INE463A14JY6	Feb 26, 2021	3.11%	March 30, 2021	35.00	CARE A1+
	-	-	-	7-364 days	365.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper- Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (19-Mar-20)	1)CARE A1+ (25-Mar-19)	1)CARE A1+ (15-Nov-17)

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-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.

Contact us

Media Contact

Name- Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Arindam Saha
Group Head Contact no.- 033-4018 1631
Group Head Email ID- arindam.saha@careratings.com

Relationship Contact

Name: Lalit Sikaria
Contact no.: 033 4018 1607
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**