

Berger Paints India Limited (Revised)

October 09, 2023

Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Commercial paper	1,300.00	CARE A1+	Reaffirmed

Details of instruments in Annexure-1.

Rationale and 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 market position in the Indian paints industry, 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. With constant capacity addition, product innovation and effective marketing spends, the company has been able to maintain its market share and sustain itself as the second-largest player in the domestic paints industry. 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.

The above rating strengths mostly offset the inherent risks associated with the volatility in the prices of key raw materials (mostly being derivatives of crude oil) and foreign currency exposure risk. The rating also factors in the expected increase in competitive intensity as large capex is planned by existing and new players in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not Applicable

Negative factors:

- Significant volume-driven decline in total operating income (TOI) by over 20% or sharp decline in its market share in paint industry in India.
- PBILDT margin dropping below 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.

Analytical approach: Consolidated

Considering the strong operational and financial linkages of BPIL with its subsidiaries and joint ventures (JVs), CARE Ratings Limited (CARE Ratings) has adopted a consolidated analytical approach for BPIL. The details of the entities being consolidated in BPIL, as on March 31, 2023, are placed in **Annexure-6**.

Detailed description of the key rating drivers

Key strengths

Established position in the Indian paint industry

The organised domestic paint industry is oligopolistic in nature, with the top five players controlling a major market share. BPIL is an established player in the organised paint market, coming second in the decorative paints segment in India and a 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 60,000 dealers and retailers with 184 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 the 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 a well-established brand name

BPIL's revenue is dominated by the decorative paint segment; however, it also has a 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 the continuous introduction of innovative products to suit the evolving needs of customers and develop a wide product

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

portfolio. Its range of products includes water-based, solvent-based, 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 currently setting up a greenfield project at Panagarh (West Bengal). The project cost is expected to be about ₹500 crore, which will be funded entirely out of internal accruals. The facility is expected to be commissioned by March 2025. The company recently commissioned its facility at Sandila (Uttar Pradesh) in February 2023 at a total outlay of ₹1,097 crore (revised from ₹900 crore), funded through internal accruals.

Increase in the TOI, albeit moderation in profitability margins in FY23; improved financial performance in Q1FY24

The company reported a y-o-y growth of 20.33% in its consolidated TOI in FY23. The growth was driven by growth across all segments, such as the decorative segment, general industrial and automotive segment, along with the protective and infrastructure coating segment. The volume growth was around 13% in FY23.

The PBILDT margin however witnessed a dip from 15.23% in FY22 to 14.13% in FY23 on account of increase in the cost of materials which could not be fully passed on despite price hikes taken during the year. While higher raw material prices resulted in gross margins reducing by around 190 bps, the moderation in its PBILDT margin was restricted to around 110 bps due to the benefits of operating leverage. The PBILDT interest coverage ratio decreased from 26.32x in FY22 to 15.06x in FY23 on account of significant increase in interest cost due to higher borrowings during the year.

In Q1FY24, the TOI witnessed a y-o-y growth of around 10%, backed by growth in both volume and value of decorative paints segment. PBILDT margins witnessed significant improvement from 14.80% in Q1FY23 to 18.50% in Q1FY24 on account of reduction in material cost as a percentage of cost of sales and better absorption of fixed costs with increased production volumes. The raw material prices have witnessed softening which has led to improved profitability.

Robust capital structure and debt coverage indicators

The capital structure of the company remains robust, with overall gearing at 0.32x as on March 31, 2023 (PY: 0.33x). The increase in net worth due to increased profits was negated by increase in working capital borrowings and lease liabilities.

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 borrowings are likely to consist of only working capital. The outflow towards capex will be funded through internal accruals, which may result in an increase in working capital borrowings, albeit the capital structure is expected to remain comfortable.

Stable demand prospects

The growth trajectory of the Indian paint industry is expected to ease in current year, with an expected growth of 9-10% in FY24. This follows two consecutive years of remarkable growth in FY22 and FY23. This moderation is accompanied by anticipated improvements in operating margin attributed to the decline in prices of critical raw materials and the price increase undertaken by key industry players during FY23 and Q1FY24.

Decorative paints, where BPIL is mainly present, constitute about three-fourth of the overall Indian market. Urbanisation and nuclearization of families, rising disposable income, shortening of re-painting cycle over the last decade, growing demand from semi-urban and rural areas, housing for all/affordable housing projects, spending on large-scale infrastructure projects are major growth drivers.

Liquidity: Strong

BPIL has a strong liquidity profile, characterised by healthy cash generations and unencumbered liquid investments amounting to ₹405 crore as on June 30, 2023. The available liquidity and envisaged healthy internal cash generations are expected to comfortably meet its capex requirements as well as low-term debt repayment obligations. With a consolidated overall gearing of 0.32x as on March 31, 2023, 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) of ₹1,300 crore stood at around 47% for the 12 months ended August 31, 2023, providing further liquidity comfort.

Key weaknesses

Susceptibility of operating margin to raw material price fluctuations

The cost of raw materials consumed constituted around 74% of the total cost of sales of BPIL in FY23 (FY22: 73%). 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 for pigments, which is mainly imported and the prices of which are driven by global demand and supply factors. Despite the decorative paint segment contributing around 80% of the total sales, wherein the company is usually able to pass on the increase in the raw material prices, the competition from the organised and unorganised players does

limit the pricing flexibility to an extent. In the industrial segment, the susceptibility of the profit margins to commodity price volatility is relatively higher, where the finished goods pricing is through unilateral agreements and involves 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, such as titanium dioxide from countries like China, Germany, Australia, etc. Currently, the company imports raw materials worth around Rs.125 crore per month. In FY23, the total forex outgo of the company stood at ₹1,313 crore. However, the company does not have any sizeable exports. The company has a flexible hedging policy, wherein it makes informed buying and hedging decisions according to the market dynamics. This exposes the company to foreign currency fluctuation risk, in addition to commodity price fluctuation risk. The company reported a forex loss of ₹19.0 crore in FY23 against a loss of ₹6.45 crore in FY22.

Expected increase in competitive intensity

The existing players of the industry are expanding their capacities and new players are setting up capacities to cater to the increased demand. The industry has a planned capex of ₹20,000-22,000 crore over the next three to four years. This is expected to increase the overall capacity by 20% in turn, increasing the competitive intensity and restricting the margins over the long term. Nevertheless, it is anticipated that they will require a significant period, estimated at five to seven years, to establish their presence in the market and secure a meaningful market share from the established industry leaders.

Environment, social, and governance (ESG) risks

BPIL has a defined environment monitoring plan, including water management, waste management, energy conservation, and safety and wellness systems to ensure the sustainability of operations, given the impact of paint manufacturing on the environment and the health of workers. It also meets its social responsibilities and has a healthy governance framework with high level of disclosures.

The company reduced around 19,635 MT carbon footprint in FY23 by adopting various energy saving measures, coupled with the usage of biofuels. BPIL spent ₹19.28 crore in FY23 as against its 2% obligation of ₹19.20 crore on corporate social responsibility (CSR). The board of directors of BPIL comprises 11 members, of which six are independent directors.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro -economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Paints

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, KS Dhingra and GS 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)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	8,765.64	10,571.07	3,029.51
PBILDT	1,334.93	1,494.19	560.52

PAT	832.95	860.40	354.91
Overall gearing (times)	0.33	0.32	NA
Interest coverage (times)	26.32	15.06	28.44

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments: Detailed explanation of covenants of the rated instruments is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

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	INE463A14NT8	25-Sep-2023	Market driven	30-Oct-2023	100.00	CARE A1+
Commercial paper - Proposed	-	-		7-365 days	1200.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Commercial paper	ST*	1300.00	CARE A1+	-	1)CARE A1+ (18-Oct-22) 2)CARE A1+ (17-Aug-22)	1)CARE A1+ (14-Sep-21)	1)CARE A1+ (18-Mar-21)

*Short Term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper	Simple

Annexure-5: 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
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Direct subsidiaries		
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%
Indirect subsidiaries		
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% Sub 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%
Joint Ventures		
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 the complexity levels of the rated instruments: CARE Ratings 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 for any clarifications.

Contact us

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About us:

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