

Berger Paints India Limited

September 19, 2024

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 across India. The rating also takes comfort from BPIL's strong financial risk profile, marked by healthy return indicators, robust capital structure, and strong liquidity and debt coverage indicators.

BPIL's consolidated total operating income (TOI) grew by 6% in FY24 (refers to April 01 to March 31) and 2% in Q1FY25 (y-o-y) driven by strong double digit volume growth which was partly offset by the impact of price cuts taken in H2FY24 (of ~5%) and a change in product mix. PBILDT margin witnessed an increase from 14.13% in FY23 to 16.64% in FY24 in the backdrop of softening of key input costs. Going forward, though the margin is expected to moderate slightly in view of higher ad spend and competitive pressure, it is expected to remain healthy in the range of 15%-16% supported by price hike undertaken in Q2FY25 and favourable raw material cost. 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. As the expansion and routine capex is proposed to be funded entirely out of its healthy internal cash accruals, CARE Ratings Limited (CARE Ratings) expects BPIL's financial risk profile to remain strong.

The above rating strengths mostly offset inherent risks associated with volatility in prices of key raw materials (mostly being derivatives of crude oil) and foreign currency exposure risk. The rating also factors in 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 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 to profit before interest, lease rentals, depreciation, and taxation (TD/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 BPIL's strong operational and financial linkages with its subsidiaries and joint ventures (JVs), CARE Ratings has adopted a consolidated analytical approach for BPIL. Details of entities being consolidated in BPIL, as on March 31, 2024, are placed in **Annexure-6**.

Detailed description of key rating drivers:

Key strengths

Established position in Indian paint industry

The organised domestic paint industry is oligopolistic, 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 protective paint segment in terms of market share.

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

BPIL has a strong distribution network across India, consisting of ~64,000 (PY: 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 the demand in major regions. The company has also been opening company-owned-company-operated (COCO) stores across the country to increase its sales. Going forward, the company plans to further increase the network in geographies where it has lower presence.

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

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, including general industrial and automotive, powder coatings, and protective segment. BPIL's research and development (R&D) efforts pave way for continuous introduction of innovative products to suit evolving needs of customers and develop a wide product portfolio. Its range of products includes water-based, solvent-based, interior and exterior paints. Popular brands of the company include 'Weathercoat', 'Luxol', 'Silk' and 'Easy Clean'.

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 estimated project cost of ~₹500 crore is being funded entirely out of internal accruals. The facility is expected to be commissioned by March 2026. Post that, the company would be setting up a manufacturing unit in Odisha, with capex proposed to be ~₹1,460 crore and annual capacity of ~410,000 KLPa, funding for this is expected out of its internal accruals and surplus liquidity. The company had earlier commissioned its facility at Sandila (Uttar Pradesh) in February 2023 at a total outlay of ₹1,097 crore funded through internal accruals.

Healthy financial performance in FY24 and Q1FY25

BPIL's consolidated TOI grew by 6% in FY24 (refers to April 01 to March 31) and 2% in Q1FY25 (y-o-y) driven by strong double digit volume growth which was partly offset by the impact of price cuts taken in H2FY24 (of ~5%) and a change in product mix. PBILDT margin witnessed an increase from 14.13% in FY23 to 16.64% in FY24, considering softening of key input costs. Going forward, though the margin is expected to moderate slightly, considering higher ad spend and competitive pressure, it is expected to remain healthy in the range of 15%-16% supported by price hike undertaken in Q2FY25 and favourable raw material cost.

Robust capital structure and debt coverage indicators

The company's capital structure remains robust, with overall gearing improving to 0.19x as on March 31, 2024, (PY: 0.32x) with the increase in net worth due to increased profits alongside decrease in working capital borrowings.

Debt coverage indicators also improved y-o-y in FY24. The company does not have plans to avail additional term debt in the medium term and borrowings are likely to consist of only working capital. Accordingly, its capital structure and debt coverage indicators are expected to remain comfortable.

Stable demand prospects

Growth trajectory of the Indian paint industry is expected to ease in current year, with an expected growth of 4-6% in FY25. This follows lower growth in FY24 after two consecutive years of remarkable growth in FY22 and FY23. This moderation is accompanied by anticipated moderation in operating margin attributed to the expansion in capacities by existing players and setting up of capacities by new players to cater the increased demand.

Decorative paints, where BPIL is mainly present, constitute about three-fourth of the overall Indian market. Urbanisation and nuclearisation 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 expected to be major growth drivers in the medium term.

Liquidity: Strong

BPIL has a strong liquidity profile, characterised by healthy cash generations and unencumbered liquid investments. Liquidity in the form of mutual funds, fixed deposits and cash and bank balance (consolidated) amounted to ₹532 crore as on March 31, 2024. Available liquidity and envisaged healthy internal cash generations are expected to comfortably meet its capex requirements and term debt repayment obligations. With an overall gearing of 0.19x as on March 31, 2024, the company has sufficient gearing headroom to raise additional debt for its capex, if required. Average utilisation of its fund-based working capital limits (including commercial paper) stood at ~18% for the 12 months ended July 31, 2024, providing further liquidity comfort.

Key weaknesses

Susceptibility of operating margin to raw material price fluctuations

Cost of raw materials consumed constituted ~71% of the total cost of BPIL's sales in FY24 (FY23: 74%). Significant proportion of 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 its prices are driven by global demand and supply factors. Despite the decorative paint segment contributing ~80% of the total sales, where the company is usually able to pass on the increase in raw material prices, competition from organised and unorganised players does limit pricing flexibility to an extent. In the industrial segment, susceptibility of profit margins to commodity price volatility is relatively higher, where finished goods pricing is through unilateral agreements and involves negotiations. Hence, the company's profitability is susceptible to the raw

material price fluctuation risk.

Foreign currency exposure risk

BPIL imports ~35% of its raw material requirement, such as titanium dioxide from countries like China, Germany, and Australia among others. In FY24, the company's total forex outgo stood at ₹1,145.29 crore. However, the company does not have sizeable exports. The company has a flexible hedging policy, where 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 a forex loss of ₹4.04 crore in FY24 against a loss of ₹19.04 crore in FY23.

Expected increase in competitive intensity and ad spend

Existing players of the industry are expanding their capacities and new players are setting up capacities to cater 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. To combat rising competition, the advertisement spend of the industry players is expected to rise.

Nevertheless, it is anticipated that the new players 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

The paint industry affects the environment due to its high water usage, waste production, and greenhouse gas (GHG) emissions. 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 environment and health of workers. The company reduced ~13,395 MT carbon footprint in FY24 by adopting energy saving measures, and usage of biofuels. 75% of input was sourced sustainably. It also meets its social responsibilities and has a healthy governance framework with high level of disclosures.

BPIL spent ₹21.99 crore in FY24 as against its 2% obligation of ₹21.44 crore on corporate social responsibility (CSR). The board of directors of BPIL comprises 11 members, of which six are independent directors.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Consolidation](#)

About the company and industry

Industry classification

Macroeconomic 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 decorative paint segment (~80% of the sales) and industrial segment. BPIL has 25 manufacturing plants in India (including plants of subsidiaries in India), two in Nepal, one each in Poland and Russia, and around 184 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 1991 from the UB group. Prior to this acquisition, BPIL was operating in India under other promoter groups since 1923.

Brief Consolidated Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	10,571.07	11,201.54	3,091.01
PBILDT	1,494.19	1,863.94	522.41
PAT	860.40	1,169.82	354.03
Overall gearing (times)	0.32	0.19	NA
Interest coverage (times)	15.06	23.82	34.44

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument: Annexure-3

Complexity level of 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 and Rating Outlook
Commercial Paper - Proposed #	-	-	-	7-364 days	1300.00	CARE A1+

There was no CP outstanding as of Sept. 10, 2024

Annexure-2: Rating history for 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 2024-2025	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
1	Commercial Paper	ST	1300.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (18-Oct-22) 2)CARE A1+ (17-Aug-22)	1)CARE A1+ (14-Sep-21)

ST: Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Berger Jenson & Nicholson (Nepal) Private Limited	Full	Subsidiary
2	Beepee Coatings Private Limited	Full	Subsidiary
3	Berger Paints (Cyprus) Limited	Full	Subsidiary
4	Lusako Trading Limited	Full	Subsidiary
5	SBL Specialty Coatings Private Limited	Full	Subsidiary
6	Berger Paints Overseas Limited [100% Subsidiary of Berger Paints (Cyprus) Limited]	Full	Indirect subsidiary
7	Bolix S.A. (100% Subsidiary of Lusako Trading Limited)	Full	Indirect subsidiary
8	Build-Trade sp. z.o.o. (100% Subsidiary of Bolix S.A.)	Full	Indirect subsidiary
9	Bolix UKRAINA sp. z.o.o. (100% Subsidiary of Bolix S.A.)	Full	Indirect subsidiary
10	Soltherm External Insulations Limited (100% Subsidiary of Bolix S.A.)	Full	Indirect subsidiary
11	Soltherm Isolations Thermique Exterieur SAS (100% Sub of Bolix S.A.)	Full	Indirect subsidiary
12	Berger Hesse Wood Coatings Private Limited	Proportionate	Indirect subsidiary
13	Berger Rock Paints Private Limited	Proportionate	Indirect subsidiary
14	STP Limited	Proportionate	Indirect subsidiary
15	Berger Becker Coatings Private Limited	Proportionate	Joint Venture
16	Berger Nippon Paint Automotive Coatings Private Limited	Proportionate	Joint Venture
17	Surefire Management Services Ltd ("SMS").	Proportionate	Joint Venture

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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