

Berger Paints India Limited (Revised)

March 25, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper Issue	500 (Rs. Five Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments 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 its robust liquidity indicators marked by healthy operating profit margin translating into consistent cash accruals, moderate utilization of its working capital limit, substantial liquid investments providing ample cushion, comfortable financial risk profile & debt coverage indicators.

The rating also derives strength from BPIL's established position in Indian Paint Industry having wide distribution network with manufacturing facilities spread across India. Sizeable chunk of its business is being contributed by decorative segment (~80%) which is expected to grow on volumes due to rapid pace of urbanization and rise in consumption demand from both rural and urban areas with rise in disposable income.

The rating also factor the risks related to volatility associated with key raw material prices and foreign currency exposure risk.

Any significant unrelated diversification plan undertaken through debt funding, significant deterioration in its operational and financial performance hampering cash accruals and consequent weakening of debt coverage indicators would be key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths*****Established player in the Indian Paint Industry with a sizeable chunk in the decorative segment***

The Indian Paints Industry is dominated by unorganised sector with a market share of ~65%. The organised sector is oligopolistic in nature with top 4 players controlling a market share of more than 98%. BPIL is an established player in the organised paint market, coming second in the decorative paints segment in India and emerging as a leader in the protective paint segment in terms of market share.

BPIL's R&D efforts pave way for innovative products to suit the evolving customer needs. In the decorative segment, BPIL's new offerings include Weathercoat Antidustt, Silk Glamor and Luxol XTRA Super Gloss Enamel. In addition, to support innovations, BPIL is entering into various Memoranda of Understanding (MoUs) with international companies.

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 100 stock points has helped improve penetration in the decorative segment. Further the company has strategically set up its manufacturing facilities across the country (i.e. in North, South, East, And West & North East) in order to cater to demand in all the regions.

Increase in total operating income; albeit marginal moderation in profitability margins in FY18 & 9MFY19

The consolidated total operating income of the company increased by 15.71% from Rs.4,548.18 crore in FY17 to Rs.5,262.74 crore in FY18 driven by volume growth in all the products across segments. PBILDT margin declined marginally from 16.10% in FY17 to 15.42% in FY18 primarily due to increase in cost of most raw materials coupled with weak rupee. Despite increase in operating profitability in value terms with higher sales the company reported PBT of Rs.704.74 crore in FY18 vis-à-vis Rs.703.08 crore in FY17 due to marginal increase in capital charges, lower other income and exceptional income (profit on transfer of paint division relating to automobiles to Berger Nippon Paint Automotive Coatings Private Limited) of Rs.44.20 crore in FY17. Further, with higher tax burden the net profit was marginally lower at Rs.460.83 crore in FY18 vis-à-vis Rs.473.66 crore in FY17. Consequently the PAT margin also moderated marginally to 8.68% in FY18 from 10.30% in FY17. The company earned GCA of Rs.585.26 crore in FY18 as against Rs.598.05 crore in FY17.

On a standalone basis, the company reported PAT of Rs.431.84 crore on total income of Rs.4,770.32 crore in FY18 as against PAT of Rs.444.09 crore on total income of Rs.4,273.63 crore in FY17.

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

During 9MFY19, on a consolidated basis the company reported PAT of Rs.386.02 crore on total income of Rs.4,633.35 crore in 9MFY19 as against PAT of Rs.354.62 crore on total income of Rs.3,901.13 crore in 9MFY18. PBILD margin stood at 14.58% in 9MFY19 vis-à-vis 15.86% in 9MFY18.

Comfortable capital structure and debt coverage indicators

The capital structure of the company is comfortable marked with low gearing. The consolidated total debt increased marginally from Rs.518.14 crore as on March 31, 2017 to Rs.559.25 crore as on March 31, 2018 with marginal increase in working capital borrowings. However, the overall gearing remained stable at 0.29x as on March 31, 2018 as compared to 0.30x as on March 31, 2017 with accretion of profits to network.

The debt coverage indicators also remained comfortable with TD/GCA and interest coverage of 0.96x and 33.05x respectively in FY18 vis-à-vis 0.87x and 45.16x respectively in FY17.

Favourable industry prospects

The Indian paint industry, a Rs.55,800 crore industry in FY18 is split into decorative and the industrial segment. The rising disposable income and higher spend on home decor is expected to aid the consumption of decorative paints. Whereas, the demand for industrial paints are also likely to grow backed by an expected improvement in industrial output. Further the government's focus on infrastructure developments also augurs well for industrial paints.

While the outlook for demand remains positive, concerns for paints industry would remain on the raw materials front with volatility in crude oil prices.

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 such as mineral turpentine oil, phthalic anhydride are derivatives of crude oil. While the industry has benefited from the decline in crude prices during 2014-16, a sharp increase in the recent past has negatively impacted its margins. Despite, decorative segment contributing to 80% of the total sales, susceptibility of the profit margins to commodity price volatility remains, as competition from the organised and unorganised players limit pricing.

Foreign currency exposure risk:

BPIL imports around a third of its raw material requirement, mainly pigments such as rutile (Titanium Dioxide). This exposes the company to foreign currency fluctuation risk in addition to commodity price exposure.

Liquidity

The liquidity profile of the company is comfortable with significant cash accruals over the years. The utilisation of the fund based limits remained comfortable with average maximum utilisation of 58% during the last 12 months ended November'18. The liquidity further derives comfort from high cash, bank balance and liquid investments which stood at Rs.427.02 crore as on March 31, 2018 (Rs.464.97 crore as on March 31, 2017) and Rs.460 crore as on September 30, 2018

Analytical approach: For the purpose of assigning ratings to BPIL, CARE has considered the consolidated financial and business risk profile of BPIL, its subsidiaries and associates as they are under similar lines of business, namely coating, governed by the same management and exhibit cash flow fungibility. The list of companies being consolidated is as under:

Name	% holding
Beepee Coatings Pvt Ltd, Gujarat	100%
Berger Jenson & Nicholson (Nepal) Pvt Ltd	100%
Berger Paints (Cyprus) Ltd	100%
Berger Paints Overseas Ltd, Russia	100%
Lusako Trading Ltd, Cyprus	100%
Bolix S.A., Poland	100%
Saboo Coatings Pvt Ltd, Chandigarh	100%
Berger Nippon Paint Automotive Coatings Private Limited	49%
Berger Becker Coatings Private Limited	49%

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: 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 161 sales depots across India. Of the above, 4 facilities and 48 depots are dedicated to British Paints, a strategic business unit of BPIL. In addition, it also has 1 manufacturing facility in India under wholly owned subsidiary (WOS) Beepee Coatings Private Limited. 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.

Consolidated Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4,548.18	5,262.74
PBILDT	732.43	811.36
PAT	473.66	460.83
Overall gearing (times)	0.30	0.29
Interest coverage (times)	45.16	33.05

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable.

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

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

Annexure-1: Details of Instruments

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	-	-	7-364 days	500.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (15-Nov-17)	-	-

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