

Berger Paints India Ltd (Revised)

March 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Commercial Paper Issue	500.00 (Rs. Five Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

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

The rating also derives strength from BPIL's established position in Indian Paint Industry with significant market share in the decorative segment, its wide product portfolio with an established brand name and a wide distribution network with manufacturing facilities spread across India.

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

Key Rating Sensitivities

Positive Factors: NA

Negative Factors:

- Deterioration in PBILDT margin (<13%) and PAT margin (<8%) on a sustained basis.
- Deterioration in overall gearing (>0.5x) and debt coverage indicators-TD/GCA (>2x) and interest coverage (<4x) on a sustained basis.
- Decline in cash and liquid investments by less than Rs.300 crore on a sustained basis.

Detailed description of the key rating drivers
Key Rating Strengths
Established player in the Indian Paint Industry with significant market share in the decorative segment

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 emerging as a leader in the protective paint segment in terms of market share.

Wide product portfolio with an 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 and innovative products like odour-free paints. Popular Berger brands are Weathercoat Antidustt, Silk Glamor and Luxol XTRA Super Gloss Enamel, Easy Clean and Easy Clean Fresh.

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 120 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.

Continued increase in scale of operations and operating profits level

The total operating income (TOI) of the company increased by 14.67% y-o-y to Rs.5526 crore in FY19. The growth in operating income was driven by growth across all segments, the decorative segment in particular. The PBILDT margin declined marginally from 15.48% in FY18 to 14.92% in FY19 on account of increase in cost of raw materials as the average price of crude increased y-o-y coupled with weak rupee. Further, titanium dioxide pigment (rutile), the other major raw material also witnessed increase in prices.

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

During 9MFY20, the company earned a TOI of Rs.4517 crore as against Rs.4163 crore in 9MFY19. The PBILDT margin improved y-o-y in 9MFY20, due to decrease in raw material costs. Raw material as a percentage of TOI decreased by around 300 bps y-o-y in 9MFY20.

Comfortable capital structure and debt coverage indicators

The capital structure of the company is comfortable marked with low gearing of 0.15x as on Mar'19 (0.13x as on Mar'18). BPIL does not have any term debt obligation at a standalone level. Similarly, TD/GCA and interest coverage was also very comfortable in FY19 at 0.64x (0.52x in FY18) and 39.66x (46.06x in FY18) respectively. BPIL continued to remain net debt negative as on March 31, 2019, on account of free cash, bank and liquid investments of Rs.372 crore as on March 31, 2019.

Favourable industry prospects

The paints industry can be broadly split into decorative and the industrial segment. In the short run, profitability of paint companies may exhibit volatility due to volatility in crude oil price and subdued demand from user industry; however, over the longer term, economic sense is expected to prevail, supporting prices and profitability. Large paint companies are likely to post a reasonable level of profits driven by rise in disposable income of the average middle class coupled with increasing investment on education, urbanization, development of the rural market, relatively low gearing (as a result of high cash accruals in the last few years), efficient cost management and launch of innovative products, like ecofriendly, odour free, and dust & water resistant paints as a result of R & D efforts. Consequently, CARE believes that the credit profile of paint companies which invest in innovation, R & D and manage their inventory & supply chain efficiently are likely to enjoy an edge over others.

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. Hence, the profitability of the company is susceptible to raw material price fluctuation risk. Other major raw materials include titanium dioxide (TiO₂) prices are which are driven by global demand and supply. Despite, decorative segment contributing to 82% 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.

Foreign currency exposure risk

BPIL imports around a third of its raw material requirement, mainly pigments such as TiO₂. 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.

Liquidity: Strong

Liquidity is marked by strong cash accruals against no term debt repayment obligation on a standalone level. Considering the guaranteed term debt obligations for BPIL, even after factoring internal accruals for projected capex, liquidity is expected to be sufficient to meet the term debt payments of its subsidiaries, if need be. Liquidity is supported by unutilized lines of credit with average of maximum utilisation of the fund based limits being 64% during the last 10 months ended January 2020 even though such utilization increases during festive season sales. The liquidity further derives comfort from liquid investments and Fixed Deposits (excluding cash and bank balance) of maintained by BPIL on consistent basis and the same stood at Rs.319 crore on Jan 22, 2020.

Analytical approach: Standalone Approach

BPIL was assessed on a consolidated basis earlier. However, majority of the subsidiaries and JVs are foreign entities and as per change in criteria, a standalone view factoring in the support to be extended to these subsidiaries has been taken. Around 90% of turnover and profits at a consolidated level, are attributable to the standalone operations to BPIL.

Applicable Criteria

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

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

[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 more than 120 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)	FY18 (A)	FY19 (A)
Total operating income	4819	5526
PBILDT	746	825
PAT	432	439
Overall gearing (times)	0.13	0.15
Interest coverage (times)	46.06	39.66

A: Audited

Status of non-cooperation with other CRA: Not applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (25-Mar-19)	1)CARE A1+ (15-Nov-17)	-

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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