



Background & Business

Berger is a Kolkata based paint company that manufactures paints (decorative & industrial) and construction chemicals and is India's 2nd largest paint company (18% market share) after Asian Paints (APNT -- 53% market share) as per 9MFY17 numbers. Berger has undergone several ownership changes in its 100+ years of existence and is currently owned by Delhi based Dhingra brothers who have several decades of experience in the paints business. Promoter ownership is high at ~75% with NIL shares pledged. The Dhingra brothers who are Chairman and Vice-Chairman of the company represent the fourth generation of the family which has continuously been in the paints business since 1898.

Investment Thesis

Berger is a strong No. 2 and has several factors going for it which make it a favorable investment opportunity over medium to long term:

- a. **Continued focus on branding with increasing proportion of high-margin high-value decorative paints in overall sales mix** (Berger has maintained its market share intact over the past decade in the highly competitive decorative paint segment where it is pitted against global paint giants such as Kansai Nerolac and Akzo Nobel. However, product mix improvement has caused Berger's EBITDA margin to expand nearly 650bps over the past decade versus less than 475bps for Kansai Nerolac),
- b. **Capacity augmentation and expansion** (over past 5 years, capacity has been increased by ~2.2xs),
- c. **Steady increase in distribution reach and strong relationship management with dealers** (Berger has ~20,000 dealers and 12,000 tinting machines, 2nd only to APNT which has 35,000 dealers & 27,000 tinting machines. It intends to increase dealer count by 15-20% every year),
- d. **Healthy balance sheet with steady free cash generation and improving return ratios** (consolidated gross D/E ratio of 0.25xs, net debt free and RoCE of 30% as on 30th September, 2016).
- e. **Shifting of preference from unorganized to unorganized players provides ample scope for overall market expansion** (While APNT has been gaining share and has continued to stay above the 50% mark, Berger has been continuously gaining market share from unorganized players which have limited pricing power and offer products only at lower end of the spectrum w.r.t. price & quality. With passage of GST, even pricing gap would diminish, thereby leading to huge shift in preference towards products from organized players).

From : 21-04-2015
To : 28-02-2017
Performance : 60%
Recommendation : OPEN



Outlook

We have a constructive outlook on the business model of Berger and are of the opinion that the structural drivers supporting strong demand both across decorative and industrial paints are likely to propel strong double digit CaGR over the medium to long-term. We believe, the entry barriers by virtue of distribution reach are likely to remain. We expect high consolidation aiding pricing power along with steady premiumisation in demand to continue to drive strong profitable growth to the tune of 20% CaGR going forward.



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