



INDIAN SCHOOL OF  
BUSINESS AND COMPUTING

## **ISBC Bangalore**

### **Berger Paints: Colouring its way to a brighter future**

#### **Case Study**

This case study was written by Manisha Nayar, Indian School of Business and Computing, Bangalore. The case has been compiled from published sources. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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# **Berger Paints: Colouring its way to a brighter future**

“As a company we have always believed in innovation” Abhijit Roy, CEO Berger Paints

## **Introduction**

Berger paints closed 2017-18 with total income at Rupees 51.47 Billion<sup>1</sup>, an increase of 14%, and a bottom line increase of 11%. In a year marked with GST implementation full of initial hiccups, delivering a growth rate in double digits is certainly noteworthy. Berger has shown resilience by registering constant growth over the last few years, slowly but surely inching its way to being the number two paint company in India. Its market capitalization, on 31 March 2018, was Rupees 299.05 Billion<sup>2</sup>, a CAGR of 29.8%<sup>3</sup> over the last five years. It has achieved this primarily by focusing only on paints, unlike its competitors who have diversified into allied products and services. It derives its revenues mainly from decorative paints in the urban sector, which is seventy percent of its total revenue. (To counter that risk, Berger acquired Saboo Coatings<sup>4</sup>, to boost its industrial coatings business)

Despite this achievement, it continues to trail behind the market leader, Asian Paints by almost a one - third margin. In addition, its closest competitor, Kansai Nerolac is nibbling at its feet, with a wafer thin difference in market share. Margins are under pressure in the decorative paints sector due to surging input costs and intense competition. In fact, the quarter ended March 2019 saw Berger's net profit down by 17.1%<sup>5</sup> quarter on quarter. The company is contemplating diversification into products, similar to its competitors, for future growth. Should Berger tread down this path, in the hope of achieving similar success? Given the intense competition in the decorative paint segment, will Berger continue to be the second largest paint company in the future? Will it be able to fulfil the prediction made by Abhijit Roy, MD – Berger Paints, “Hope to achieve double digit growth; will outgrow the market and industry.”<sup>6</sup> What strategy does it need to follow to catch up with the market leader? How can it differentiate itself to remain relevant to future customers? Will its journey “From a local force to a national powerhouse”<sup>7</sup> continue unabated?

## **Company History**

### **Beginnings**

Berger Paints came into existence in India in 1923 as Hadfield's (India) Ltd. in Kolkata. In 1947, British Paints acquired the company and changed the name to British Paints India Ltd. The company was producing ready - made stiff paint, varnishes and distemper. With the modernization of its plant in Howrah, Kolkata, it moved into synthetic paints. The Indian arm of British Paints was acquired by the company Berger Jenson Nicholson UK in 1969.<sup>8</sup>

Mr. Madhukar took over as the Managing Director of the company in 1973. Under his direction, it became the fastest growing company in the Indian paint Industry. The liquor major UB group acquired majority stake in the company in 1976 and in 1980, Mr. Brij Kurien took over as Chief Executive. The company changed its name to Berger Paints in 1983 and from then onwards, the company has solely used and developed the name and trademark of Berger Paints.<sup>9</sup> By then the

company divided operations into Retail Business Line and Industrial Business Line, to cater to the needs of different customers. The company opened different sales offices and launched new products – Luxol Silk the first premium emulsion, Rangoli acrylic emulsion, Bison acrylic

Distemper. During this time – period the company slowly moved from number 7 position to number 4 in the Indian market.

### **Next Phase (1991 to 1999)**

Kuldip and Gurbachan Singh Dhingra are brothers with a background in paints. They operated a small company, Rajdoot Paints, formed by their great grandparents in 1898, for the Indian market. However, they started concentrating on the erstwhile USSR, which was a booming market in 1980s. They had formed another company, UK Paint (this now closed company has no connection to United Kingdom), to operate in the Russian market. However by late 1980s, it was apparent that the USSR bubble was about to burst. Then in the year 1990, an opportunity presented itself to the brothers. Berger Paints India business was up for sale by Vijay Mallya - Chairman UB group, and in 1991, the Dhingra brothers had purchased the company.<sup>10</sup> Berger was lagging behind in the market with a turnover of Rupees 1160 million<sup>11</sup> at the time of purchase.

It was Dhingra's intimate knowledge of the paint industry that has steered the company since 1991 and has brought it to its present number two slot. They refrained from following an aggressive, non -sustainable strategy. Both the brothers stayed away from the day – to – day running of the company and appointed professionals to do that job. The only mandate they gave to the management – 'grow faster than the industry and increase your market share.' According to Abhijit Roy, MD and CEO, Berger Paints "This degree of separation of ownership and management in Berger Paints is rare compared to other companies"<sup>12</sup>. The company launched new products like acrylic distempers and emulsions during this time. In 1994 Mr. Kurien, who had been leading the company for 14 years stepped down and Mr. Subir Bose, a ten - year company veteran, took over. By the financial year 1995 – 96, sales had more than doubled to Rupees 2.56 Billion. In addition the company had acquired ISO certification, giving it the stamp of a quality manufacturer. In 1999, Rajdoot Paints merged with Berger Paints, which led to addition of two factories, at Goa and Sikandrabad in Uttar Pradesh, a network of new sales depots and new brands.<sup>13</sup> Berger Paints was well on its way to growth.

### **Growth and Expansion (2000 onwards)**

"Increase in infrastructure investment (would surge to 12.1% of Indian GDP by 2020) is expected to be one of the crucial factors for sustaining strong growth." Kuldip Singh Dhingra – Chairman, Berger Paints<sup>14</sup>

Berger Paints was open to expanding operations, both organically and through acquisitions and joint ventures. In 2001, they signed an agreement with ICI for manufacturing auto and industrial coatings at their plant in Rishra, West Bengal.<sup>15</sup> A new solvent - based paint plant started commercial production in 2004 at Jammu. On 3 February 2005, the company invested in Berger Cyprus, with the intention of setting up manufacturing in Russia and other activities in international markets. Subsequently, a wholly owned subsidiary by the name of Berger Paints Overseas Ltd, was formed in Russia in March 2005.<sup>16</sup>

In 2012, Mr. Subir Bose retired and handed over the reins to Mr, Abhijit Roy<sup>17</sup>, who is the current Managing Director. The company has continued its journey of growth, including new technical tie – ups especially to give it a push in the Industrial paints segment. With an eye on increasing its

presence in south and west India, Berger bought over Sherwin Williams in 2013<sup>18</sup>, which also added to its portfolio of products. It also set up a state-of-the-art, fully automated plant at Hindupur, Andhra Pradesh to augment the production of its all-important emulsion paint.

The company has consistently continued to invest in research and development, which has led to continuous improvements in existing products or launch of new ones. It has put in between 0.2 and 0.3% of its revenues in R&D<sup>19</sup>, which is in line with that of the industry trend. To enhance the decision-making capability, Berger invested in ERP solution from Oracle, which helped it to improve its warehouse management and logistics to ensure better service to customers. Along with automation, Berger has a relentless focus on costs, to reduce the pressure on margins.

The above-mentioned growth went hand in hand with a commensurate increase in the company's employee strength, from 1937 employees in 2005<sup>20</sup> to 2464 in 2013<sup>21</sup> and 3130 employees in 2018<sup>22</sup>.

### **Paint Industry in India**

"A fast expanding middle class with increasing disposable income, along with the government's mission to provide home to all within 2022, is expected to drive demand for decorative paints". - Jayakumar Krishnaswamy – President IPA<sup>23</sup>

Historically paint has primarily had a protective function, to prevent surfaces from spoiling. It acts as an insulating agent to prevent effects of external environment such as humidity, salty air, chemical agents and ultra violet radiation. Paint also performs a decorative function, beautifying the surface on which it is applied. In addition to these, paints can have special functions such as anti-bacterial, non-stick and luminescent.

Paint industry consists of two segments – decorative and industrial. The decorative segment accounts for approximately 70% of the industry's value and industrial, for the balance 30%<sup>24</sup>. Decorative paints consist of exterior and interior emulsion, enamel, distemper, primer, thinner and wall putty. Emulsions are relatively more expensive than distemper and enamel, due to their superior quality and long lasting finish. Enamels are the most widely used, followed by distempers and emulsions. Industrial paints consist of automotive coatings, protective coatings and powder coatings. Since industrial paints need higher technology levels, organized sector exercises control over this segment.

Organized players dominate the Indian paint industry by holding approximately 65% of the market share, and the balance 35% is in the hands of the unorganized sector. The organized sector is almost oligopolistic in nature, with four major players Asian Paints, Berger Paints, Kansai Nerolac and Akzo Nobel in the marketplace<sup>25</sup>. The overall paint market grew 11.8% y-o-y in FY18, driven by decorative paint growth of 12.9%, constituting Rupees 429 Billion<sup>26</sup>. This growth has been consistent as the decorative paint sector registered a 17% CAGR during FY05 – 15, which is 2.3 times the GDP growth rate. As per the latest report of IPA (Indian Paint Association), "India Paint Industry Outlook – 2022", Indian paint industry is expecting the revenue to reach Rupees 708.75 Billion by 2019-20<sup>27</sup>.

One of the main reasons credited for this growth are government initiatives. 'Housing for all by 2022' is a program launched to build affordable homes for the urban poor. The target is to provide 3.7 million houses under the Pradhan Mantri Awaas Yojana. This will also give rise to an increased

wave of urbanization, which currently comprises 35% of the total Indian population<sup>28</sup>. The shift from semi – permanent dwellings to permanent dwellings will increase spending in decorative segment.

Another initiative is the government's vision of developing 100 smart cities as satellite towns of metros and large cities. Government has earmarked a budget of Rupees 870 Billion for this project and the process has started rolling<sup>29</sup>. This will lead to a huge demand for construction materials, including paints. Government is also focusing on cleanliness of public places and sanitation in a big way. 'Make in India' is another government initiative designed to kick start the manufacturing sector out of its sluggishness. Even though it has not met with initial success, with the coming back of the incumbent government to power, this initiative should bode well for the industrial paint segment.

Despite all this, paint penetration in India is less than 50 percent, which is much lower than average FMCG penetration. Since there is a positive correlation between GDP growth and paints sector, it is projected that paint penetration will increase to approximately 64 percent by FY 2025<sup>30</sup>. Even during the time of demonetisation in November 2016, paint industry managed to stay afloat and posted positive volume growth<sup>31</sup>.

Paints are very raw material intensive and their cost accounts for 45 – 50% of the industry's sales. One of the key component for paint manufacturing is Titanium Di – oxide, which is a pigment imported from China and other countries. It alone constitutes 15 – 20% of the total raw material cost and is prone to price volatility<sup>32</sup>. This factor has a major impact on the margins of the paint industry.

### **Changing Nature of Consumers**

"There has been a massive transformation in the Indian consumer. Earlier, people used to paint when their walls were peeling. Now it's about décor." KBS Anand, MD & CEO, Asian Paints<sup>33</sup>

As per industry sources, 80 – 85% of Decorative paints demand in India comes from repainting, and the rest from new construction. This is where consumers are undergoing a gradual shift in their behaviour. Firstly, the repainting cycle is growing shorter due to various reasons. Increasing income levels are leading to higher aspirations of better living conditions. There is also a growing trend towards homes showcased as a conspicuous product due to changing lifestyles. This has led to an increasing per capita consumption, to approximately 3.34 kg<sup>34</sup>, which incidentally is far beneath the per capita consumption in Japan at 10.5 kg or the Asia Pacific average at 4.7 kg<sup>35</sup>.

In addition to that, people are upgrading from low quality, lower priced paints to premium category such as emulsions. They are also experimenting with new textured looks for their walls, as against the staid and predictable choices made some years back. This is especially true for millennials who are open to trying out new colours or patterns to enliven their living spaces. Urbanization is another trend having an impact on the demographics of the country. As per the UN World Population Report, urban population in India will increase from 33% as per census 2011, to 41% in 2030<sup>36</sup>. This bodes well for paint companies having a higher urban focus. Adding to all these growth drivers is the break - up of joint family system in India. Younger generation is moving out for employment, leading to nuclear family set – up, which is giving rise to additional residential demand.

On the other hand, there is a small yet growing trend of upper end consumers shifting to wall - papers, emulating their peers in the western world. As of now, this market is minuscule in India, with estimates of market size ranging from Rupees 2 Billion to Rupees 10 Billion<sup>37</sup>. Wallpaper is emerging as a substitute to paint in the luxury segment of five star and heritage hotels. For end consumers, it is a decision of wallpaper and paint, not yet of wallpaper versus paint. Upper class consumers are using wallpaper to decorate the formal areas of their homes, using it as a differentiator between them and the lower classes.

Paints are largely an undifferentiated category, with consumers not being clear about which product or brand would adequately meet their requirements. Architects or painters are one of the chief influencers for consumers paint and brand choices. Additionally, social groups to which they belong and the familiarity of the brand name, also help consumers in their decision. The only way a company can charge a higher price is through creating product differentiation in the minds of consumers and brand pull in the market.

### **Product Offerings: Decorative Paints**

In keeping with the industry norm, almost 75% of Berger's total sales revenues come from Decorative segment, both solvent and water based. The company sells Bison wall putty, Bison and Butterfly Distemper; Commando, Bison and Rangoli acrylic emulsion, Luxol enamel; all of these in the economy paints category aimed at the value for money conscious segment. Additional products such as wood coatings under the brand names Imperia and Woodkeeper are also popular offerings from the company. Between 2006 and 2011, the company started shifting its attention to the quality conscious customer due to increasing awareness and better lifestyles in the larger cities. Thus came the launch of premium and luxury interior and exterior emulsion paints under the umbrella brand name of Silk – from Silk Illusions coatings to Silk emulsion, Easy Clean Luxury emulsion and Tartaruga coatings<sup>38</sup>. This product line stretch has not only enhanced the brand image of Berger, but has also improved the margins.

In addition, as part of its Corporate "Green Policy", the company launched environment friendly Breathe Easy enamel and emulsion in 2015 – 16<sup>39</sup>. Both these products have low Volatile Organic Chemicals (VOC), with reduced carbon and ammonia emissions; and have received global certification for the first green paint in India. Hospitals and schools are the main target customers for these products. Due to consistent research and development efforts, Berger has also added certain specific products aimed at smaller markets: WeatherCoat Long Life for heavy rainfall areas and WeatherCoat Anti – Dustt for dry and dusty regions. Niche products such as roofing and sealing compounds, glass coatings and sealers; have also been introduced.<sup>40</sup>

It has also taken a step towards services by introducing Berger Express Painting services<sup>41</sup>, which is an endeavour to take the pain out of the painting process for consumers. This service focuses dedicated attention to the customer, from the beginning to the end of the process. Unlike Asian Paints, which charges 10% extra for their painting services, Berger Express Painting is at no additional cost to the customer. Berger is also providing painting services to large housing projects, under the brand Prolinks<sup>42</sup> Business. Both these endeavours have met with limited success as of now.

### **Industrial Paints**

Industrial paints, though contributing only 25% of the company's revenues, are accelerating in growth. This has been achieved partly by in-house R&D and partly through acquisitions. The company's R&D adapts technologies to the Indian environment and climate. Berger manufactures general industrial and automotive paints for machinery, two wheelers, commercial vehicles and agricultural equipment. It has a robust presence in construction chemicals products such as Waterproof putty, Cementmix Plus, Crackfill Paste, which continue to grow well.

Berger Paints trails behind Kansai Nerolac in Industrial Paints, so it is allocating resources to increase the revenue share from this segment. To get a competitive edge in areas in which it lacks a well-defined presence, it has entered into different MOU's and Joint Ventures. These include Rock Paint and Chugoku Marine Paints from Japan, Promat International from Belgium and acquisition of Saboo Coatings and Poland-based Bolix brand of paints. The company is the market leader in protective coatings and commands a premium due to its quality. It supplies to different user industries like infrastructure, metals, railway and steel, among others. In addition to the above, Berger is present in various small segments such as automotive refinish coatings, marine coatings, coil coatings and External Thermal Insulation and Composite Systems (ETICS) technology<sup>43</sup>.

### **Pricing**

Berger Paints was historically dominant in the mass-market segment and consequently followed a value for money pricing approach for its enamels and distempers. The prices of its products were approximately 10 – 15% cheaper than that of Asian Paints<sup>44</sup>. However, Berger has premiumised its product portfolio in the last few years and launched high-end emulsion and texture paints. Berger followed a higher pricing strategy for these premium products, which include brands such as Silk Luxury emulsion and Berger Easy Clean. This has enhanced the image of the company as well as had a positive impact on the margins.

### **Distribution**

Berger has, initially slowly, and then rapidly increased the number of dealers associated with it. There is a direct correlation between the market reach of the company and its market share. In 2001, Berger was a distant third in terms of its dealer network, lagging far behind Asian Paints 14,500 and Goodlass Nerolac's (as it was then called) 11,000 number of dealers<sup>45</sup>. However, today Berger has a network of approximately 28,000 dealers, leaving it second only to Asian Paints, which has a huge reach through almost 60,000 outlets<sup>46</sup>. Given this fact, Berger currently reaches less than 40% of the total paint distribution network, giving it a vast growth opportunity. The company has not emulated the market leader in opening exclusive showrooms for the Berger brand, instead relying on the conventional dealer outlets.

Berger has a distinct advantage over most of its competitors in having strategically located plants in various regions of the country, as well as in international locations. In fact, it is the only paint company to have manufacturing facilities in north, east, west and south India; having a total of 13 plants in India. From the plants, product goes to approximately 160 stock depots located across the country<sup>47</sup>. Most of the dealers directly get their delivery from these stock depots. This translates to a lower cost of distribution for the company.

### **Promotion**

Paints as a product are largely undifferentiated and low priority in customers mind. Historically, paint companies relied on Sales promotion to create a push strategy in the market. Berger has followed both customer and trade promotion strategies to enhance sales. Large cash discounts, foreign trips and gifts were part of the incentives offered to dealers. However, with changing behaviour of consumers the company realized that brand awareness is a decisive factor for paints purchase, along with the dealer or painter's opinion. The mind share enjoyed by the company is directly proportional to the level and depth of the promotional activity done by it. Berger Paints realized the importance of promotion much before most of its competitors did. They understood that advertising would not give the company immediate gains, however it would pay rich dividends over the long run. The ad spend done by Berger in year 2000 was a whopping 22% higher than the preceding year. Even though it was less than the 31% increase in ad spend done by market leader Asian Paints, it was much higher than Kansai Nerolac and (then) ICI, both recording a decline in advertising expenditure<sup>48</sup>.

From 2005 – 06 to the present time, Berger has consistently increased its promotion spend over the years. The years 2012 to 2014 saw a whopping increase of 77% in the promotion spend, though the quantum of increase has come down in the two years<sup>49</sup>. In fact, Berger has the highest ad spend as a percentage of revenue, ranging from 4.6% in 2010 to a peak of 7.1% in 2016<sup>50</sup>. The promotion mix of Berger encompasses both traditional and contemporary media, in keeping with the times. Television advertisements remain a favourite mode of promoting the higher end range of products such as Luxury emulsion paint. Keeping an eye on the older generation of customers, Berger continues to spend heavily on television advertising, especially during major festivals. It had roped in the Bollywood star Katrina Kaif for its television ads, keeping in mind her huge appeal. The company also ties up its advertising with the ongoing national events such as IPL cricket and Indian elections, to garner eyeballs and increase consumer participation.

On the other hand, it is in tune with the media habits of the millennials. Hence, the brand is very active on social media. Currently it has almost 3.2 million followers on Facebook, 184 thousand Twitter and 35,000 Instagram followers<sup>51</sup>. It puts in an average of one post a day to keep the customers interest alive. However, it has not been very successful in creating a buzz around the brand through social media. There have not been many retweets of their messages and this could be due to the mild nature of its messages. Despite all the above activities, the brand does not enjoy as large a recall value as compared to Asian Paints.

## Competition

**Asian Paints Ltd.** APL is the largest paint company in India and is the market leader since 1967, by a wide margin. With a turnover in excess of Rupees 140 Billion<sup>52</sup>, it is almost 3 times that of its nearest rival. It has an enviable record of being the first mover in almost all categories of growth. APL sells both decorative and industrial paints, with clear dominance in both interior and exterior home paints. APL has the highest promotion spend in the Indian paint industry and the result is a powerful brand image. It has a strong R&D function, which helps the company to keep up regular innovative product launches. It was the first Indian paint company to set up international operations in 1978, and today with a presence across 16 countries, it is truly a multinational entity<sup>53</sup>.

The business strategy of Asian Paints revolves around five pillars; namely innovation, agility, integration, customer centricity and people. In the last few years, APL has used diversification as



the road to growth and market domination. It has forayed into Complete Home concept; selling bath fittings, kitchen and wardrobes, colour consultancy and home décor services. In addition to innovative product introductions, APL has also adopted forward integration as a path to grow. It has a vast network of more than 60,000 retail outlets<sup>54</sup> to reach its target customers. These include exclusive Asian Paints outlets – Colourworlds, Colourideas – end – to – end home décor solutions from personalising colour choices to painting services. In addition, there are multi category home décor stores called AP Homes, which offer choices of kitchen, bath and light fittings.

APL pioneered the concept of branding in the Indian paint industry, with some iconic advertisements, much in line with other leading FMCG brands. The creation of the inimitable 'Gattu' as a brand icon or the unforgettable tag line of 'Har ghar kuch kahta hai' (every home has a story of its own) has made Asian Paints among the top 50 Indian brands. It has used technology to venture into hyper – segmentation to customize product offerings, and with constant innovation, remains the undisputed leader.

**Kansai Nerolac:** KNPL is a subsidiary of Kansai Paints, Japan and its clear focus is to regain its No. 2 slot in the Indian paint industry. It is the market leader in Industrial segment, being the vendor of choice for automobile companies such as Maruti, Tata Motors. Total sales in 2017 -18 was Rupees 50470 million, marginally behind Berger. PAT was up by 17% in 2017 -18 and sales by 14.6%<sup>55</sup>. In fact, PAT of KNPL is Rupees 5160 million against Rupees 4600 million of Berger, approximately 11% higher. It positions itself as an environmentally conscious brand, focusing on the health of the customer. The employee base of KNPL is 2861<sup>56</sup>, which is lower than that of Berger, thus contributing to lesser expenses on human resource. It has consistently spent 0.5% of its sales revenue on R&D, which is slightly higher than the percentage earmarked by Berger<sup>57</sup>.

KNPL has been able maintain its leadership as well as increased its market share to 45%, in Industrial paints<sup>58</sup>. It continues to focus on retaining its existing clients as well as bagging new ones. It is an aggressive marketer, keeping up with the customer trends. The company has a comprehensive promotion mix - conducting different events in rural and urban settings, roping in leading film stars such as Shahrukh Khan and actively participating on social media. KNPL was the first paint company to associate itself with cricket IPL edition 2016, by tying up with Gujarat Lions team. It also tied up with North East United FC in the Indian Football league 2016. It has both widened and deepened its promotion activities in the last two years. KNPL additionally tied up with another IPL team, Hyderabad Sunrisers, along with becoming the chief sponsor of Cricket Live on Star Sports<sup>59</sup>. It ventured into glamour by hosting the Zee Cine Awards, garnering a huge number of viewership. The company remains focused in its quest to usurp Berger from the No. 2 slot in the Indian paint market.

**Akzo Nobel India:** Initially known as ICI Paints, it was acquired by Azo Nobel in 2006. The company was operating in Coatings and Speciality Chemicals sectors, where Coatings consists of Decorative Paints and Performance Coatings. Their flagship brand is Dulux, which holds close to 20% market share in premium paints segment. Total sales revenue in 2016 – 17 was Rupees 31344 million, with a PAT of Rupees 2470 million<sup>60</sup>. The revenue decreased slightly to Rupees 30417 Million in 2017 - 18 though the PAT went up to Rupees 4000 million<sup>61</sup>, which is an increase of almost 61%. This occurred due to the sale of the company's speciality chemicals business last year, which was

done to refocus the energy on paints and coatings, which have taken a beating in the past few years.

The company is planning to extend its premium brand Dulux to the mass market under the brand name Dulux Promise. As per David Teng, Director – Decorative Paints (India and South Asia), “We find as a strategy the fastest growing segment is the mass segment. That means going out from the top 15 – 20 cities to the secondary and tertiary markets<sup>62</sup>.” It has launched a new water - proof range of paints and a tough exterior wall paint. Though the company is pursuing growth, the main objective is to increase profitability, at least in the short term. It has given itself a target of achieving 15% ROS and 25% ROI by year 2020<sup>63</sup>.

## Road Ahead

There is no doubt that the company has been on a steady growth path for the last decade. Looking back, Berger Paints has moved ahead with the help of innovation, long - term focus, product differentiation and manufacturing capability. Additionally, it has gradually expanded the product range to higher end paints, hence enhancing the brand image. Along with this, it has won numerous accolades for its efforts in energy conservation, environment protection and industrial safety. It has consistently featured on Forbes India Super 50 Companies list and dubbed as fastest growing Indian paint company. Berger Paints has also expanded internationally into Russia, Bangladesh and Nepal, through wholly owned subsidiaries.

While achieving this, the company has held fast on to its motto of separation of ownership and management, which has been the mantra of its co – owners and siblings, Kuldeep Singh Dhingra and Gurbachan Singh Dhingra. Their mandate to the company is to stay focused on their Values of - Performance, Customer First, Ethical Practices and Valuing People.

On the other hand are the issues of a still high GST rate of 18% for paints(though it has been brought down from 28%)<sup>64</sup>, increasing prices of raw materials especially in the light of recent global trade curbs, rapidly changing consumer behaviour of millennials who are moving away from ownership of assets. All the above are challenges, which could make Berger’s products more expensive to the large masses or not relevant to the younger customers. Besides that, Berger draws majority of its revenues from the urban market<sup>65</sup>. Even though there is a rapid urbanisation trend in India, majority of the population still resides and will continue to do so in villages. Adding to this is high competition from smaller players such as Indigo Paints, Jenson & Nicholson, Shalimar Paints, Snowcem Paints to name a few which nibble away share in various regional markets.

The last quarter results of 2018 - 19 of Berger shows a slight decrease in profits on a year - to - year basis. Similarly the results of its nearest competitor, Kansai Nerolac shows a decline in both gross sales and profits<sup>66</sup>. This might be a small solace for the company in the short term as it has an ever - increasing gap with the market leader Asian Paints, where Berger has a market cap of Rupees 320 billion<sup>67</sup> as against Asian Paints Rupees 1462 billion<sup>68</sup>.

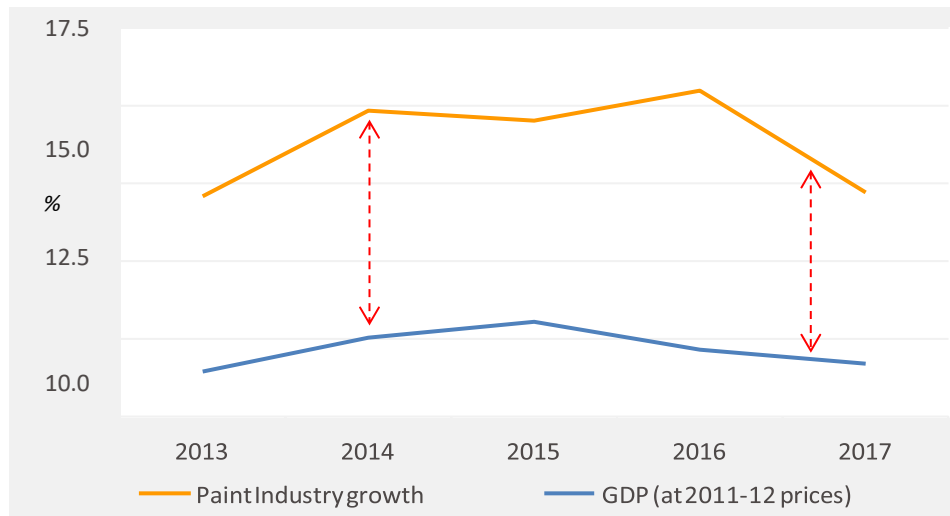
In light of the above, can Berger ensure that the growth story it has charted for the last few years does not lose momentum? All the actions taken by the company, are they enough to take care of the future? Will Berger Paints driving values of Customer first and Ethical practices help it stay ahead and aim for the number one slot in the Indian paint industry?

Figure1: Trends at a Glance

Source: Edelweiss research

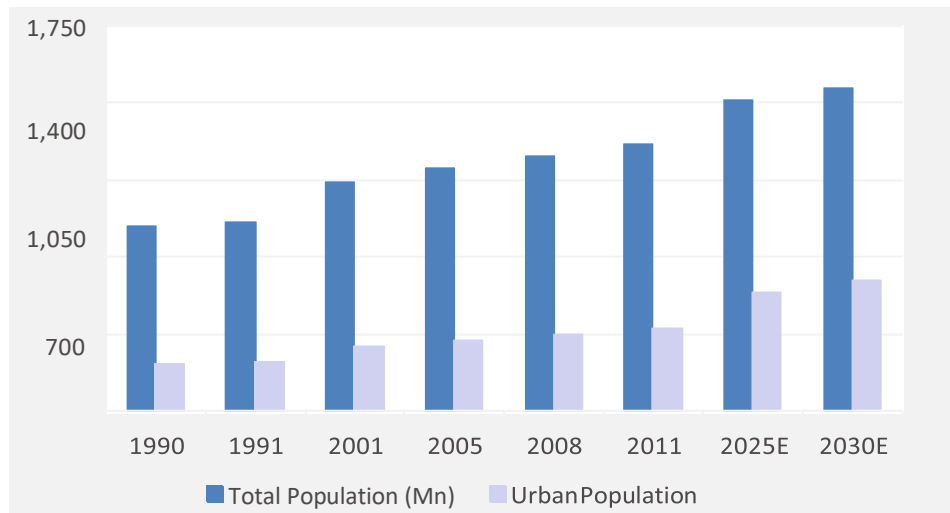
Standalone comparison	Berger Paints				Asian Paints			
	Sales growth (% YoY)	Gross margin	EBITDA margin	EBITDA growth (% YoY)	Sales growth (% YoY)	Gross margin	EBITDA margin	EBITDA growth (% YoY)
Q2FY11	14.2	36.6	10.6	5.9	6.0	44.7	19.6	4.0
Q3FY11	29.2	35.6	10.2	30.5	37.3	40.5	17.2	16.0
Q4FY11	24.0	36.3	10.0	26.1	23.6	40.9	16.0	12.3
Q1FY12	30.5	34.4	9.6	12.6	28.6	40.0	18.8	20.0
Q2FY12	22.2	37.3	11.1	27.4	25.0	40.6	15.6	(0.8)
Q3FY12	27.5	35.9	10.8	34.5	20.3	41.5	17.2	20.3
Q4FY12	26.0	34.7	10.4	31.4	28.9	43.9	16.3	28.9
Q1FY13	16.9	36.1	10.2	23.6	6.7	44.2	19.7	6.7
Q2FY13	12.6	37.1	10.5	7.0	16.2	44.4	15.7	16.2
Q3FY13	17.0	37.9	12.2	32.8	20.3	41.4	17.8	20.3
Q4FY13	8.4	40.7	11.6	20.9	7.5	42.3	15.9	7.5
Q1FY14	9.3	39.1	11.0	18.5	12.9	44.2	18.1	3.6
Q2FY14	16.8	39.9	10.9	21.4	18.2	44.4	18.0	35.3
Q3FY14	7.7	39.0	12.0	6.0	12.2	41.4	16.8	5.8
Q4FY14	15.9	39.6	13.0	20.1	22.2	42.3	15.6	19.8
Q1FY15	14.9	40.1	12.9	24.1	18.2	43.2	17.9	16.8
Q2FY15	15.7	41.4	11.4	20.7	18.3	44.8	16.1	5.4
Q3FY15	10.9	41.8	13.5	24.4	6.4	44.8	17.9	13.1
Q4FY15	8.6	42.8	13.1	18.8	6.0	46.0	17.3	18.1
Q1FY16	7.8	38.6	15.4	20.3	7.2	43.4	22.2	25.1
Q2FY16	7.2	39.3	14.1	23.3	2.3	43.6	18.9	11.4
Q3FY16	10.1	45.4	16.2	32.2	13.2	48.3	20.9	31.9
Q4FY16	8.5	43.4	16.1	31.6	11.5	46.1	20.4	23.9
Q1FY17	9.3	43.9	18.0	28.1	8.8	48.5	24.5	19.9
Q2FY17	6.1	42.7	15.3	15.0	9.4	45.7	20.3	17.6
Q3FY17	4.4	40.7	15.6	(6.3)	0.7	44.4	20.7	(5.9)
Q4FY17	7.7	41.6	15.5	3.2	9.4	44.5	19.2	3.4
Q1FY18	11.0	39.9	15.4	(5.3)	7.3	43.8	18.6	(18.2)
Q2FY18	11.3	42.3	16.0	16.8	16.1	42.2	20.0	14.1
Q3FY18	13.6	41.3	16.9	23.2	10.7	43.5	22.8	21.9

**Figure 2: Positive correlation between GDP and Paint Industry**



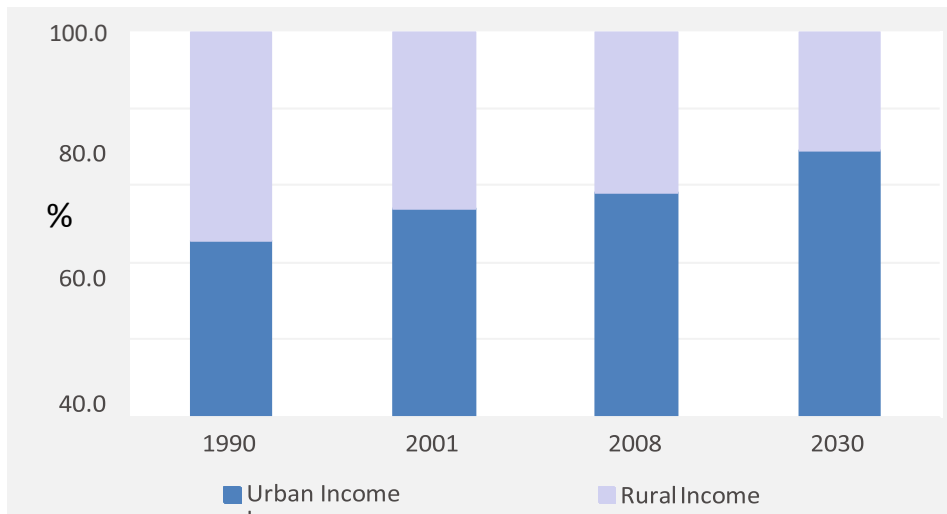
Source: Edelweiss Research

**Figure 3: Increasing Urban Population in India**



Source: Edelweiss research

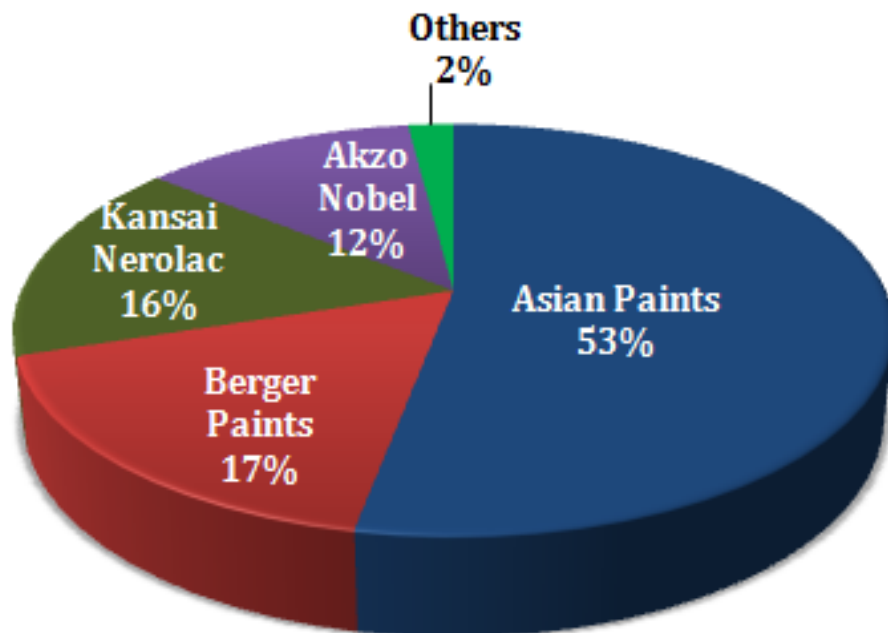
**Figure 4: Urban income share to improve, as a percentage of total income**



*Source: McKinsey Global Institute, Edelweiss research*

**Figure 5:**

### **Major Players of Indian Paint Industry**



[www.sanasecurities.com](http://www.sanasecurities.com)



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## Berger Paints social media campaign



Source: [www.youtube.com](http://www.youtube.com)



## End Notes

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