



Background & Business

Berger is a Kolkata based paint company that manufactures paints (decorative & industrial) and construction chemicals and is the largest paint company after Asian Paints (APNT) with 18% market share (as per Q1FY18 revenues), similar to that of Kansai Nerolac. APNT controls more than half the organized paint market in India with a 51% market share. 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

- A) After undergoing several ownership changes in its 90+ years of existence, Berger is run by the Dhingra brothers for the past two decades. ***Apart from the promoters, the company has an extremely strong and competent management team in place which has helped it achieve a formidable size in the paints segment in India***, second only to APNT with Kansai Nerolac closing on its heels.
- B) ***Berger has very stable financials with Revenues, EBITDA and PAT growing at nearly 20% CaGR over the past decade***. It has a low-debt balance sheet with D/E ratio below the 0.50x mark for more than a decade. Return ratios (RoCE and RoE) have averaged 25% over the same period. The business model has high potential for free cash flow generation.
- C) ***Return ratios (RoCE and RoE) have the paints sector in India is favorably poised given the thrust that Government has put on "Housing For All", "Smart Cities", etc.*** Also, the recent GST implementation is expected to cause a shift in consumer preference from unorganized players to organized (branded) players. Hence, we feel that the sector on the whole, has several triggers in place to sustain robust growth for the next 4 - 5 years.

Outlook

While we continue to like Berger over the longer term owing to the exceptional management pedigree, favorable sector outlook, significant competitive advantages in mainstay business of decorative paints and high potential for robust free cash flow generation, we feel that near term price appreciation for the stock is capped, given the very expensive valuations. (50-55x FY18 EPS). These valuations fully capture the near-term growth of the company. We have made handsome gains of 70% over the investment period and hence, we move to other more compelling stories.

From : 21-04-2015
To : 01-09-2017
Performance : 70%
Recommendation : OPEN



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