



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.

Exit Rationale

Berger has underperformed significantly in the past few quarters with single -digit volume growth in the decorative and industrial segment. It is to be noted that significant under-performance came in the scenario of demand disruption due to demonetization and de-stocking due to GST related issues. However, its peers like Kansai Nerolac and Akzo Nobel have performed significantly better. With raw material costs continuously spiking, and sales remaining lacklustre, margin may remain under pressure in the near-term. Berger is trading at premium valuations among the paints pack, second only to Asian Paints. Given its underperformance in recent times, we feel the valuations are not justified.

Outlook as on EXIT Date

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. (50-55xs 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.

However, we will continue to monitor all the developments in the company and would take a re-look at owning the stock as and when the performance improves and valuations look inexpensive.



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