

# Magnum Opus or Alla Prima? - A Case Study of Acquisitions by Berger

Dr. Saroj Vats

Associate Professor, Swami Sahajanand School of Management,  
Bhavnagar  
E-mail: [saroj\\_vats@yahoo.com](mailto:saroj_vats@yahoo.com)

**Abstract**—*Katrina Kaif, Dipika Padukone, shahrukh khan are brand ambassadors of top three paint manufacturing companies in India. Colours give coolness to the eyes but some items heavy on pocket. From instant paint technology, theme based painting HD and designer walls to latest air epitome are the USP's of paint market. It's a colourful business with lots of potentials. Paint industry is directly related with GDP, at a normal course it increases by 1.5 time of what the GDP is.*

*Affordable housing and rural economy, prompted the 2<sup>nd</sup> largest paint company cooperating from Kolkata and having its units in Nepal, Bangladesh, Russia and Poland. To increase its spread through acquisition of saboo coating and Sherwin Williams. Destocking also gave a shock to the company but company improved in total.*

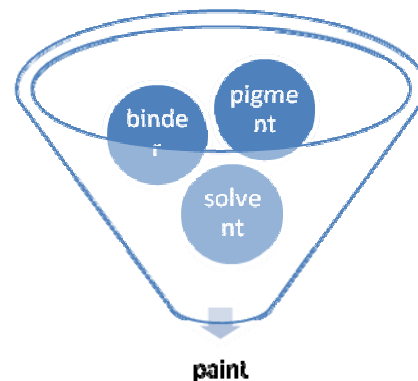
*This paper aims to find whether these acquisitions really proved silky and decorative to Berger? Financial analysis is the only one which gives us answer to the performance and decision making. Is the company working on lower the margin but higher the sale strategy?*

**Keywords:** *Berger paints, acquisition.*

## Introduction

Egyptians are pioneers of colour technology to the world. They invented Egyptian blue even before pyramids were made because it is similar to glass making art. Painting is an ancient business. The evidences are available from Haddappa, Mohan Jo Daro to pyramids of Giza. In side caves and pyramids the walls are so perfectly decorated, it shows interest of human being towards colours which was later converted in business. Hills and caves of France, evidences of human loves colour are found are older than 30,000 years. People pint their house and love to colour wall like canvas are nearly 34,000 years old. Red and okras were the colours which were used the most in these caves. Earlier the paint was made out of plants, minerals and other mix and match things like egg. Tempera (yellow colour is used by yolk of egg), Fresco ( egg yolk and white portions used in wet plaster of Paris), water colours are made of gum Arabic and other pigments, oil colours( use of oil and turpentine), animal fats and charcoal are still used in

today's paint industry as it is pigment and stable for a long period of time. Basically paint works like this



Pigment is a material used to create effect of colour on any surface where as binder is the agent that serves molecular level of paint to seek support and solvent is something that dilutes the paint. Ancient Binders were led and animal fats.

Berger Paints India Limited is an Indian paint company which operates chiefly in India headquartered in Kolkata, India. It has come a long way since its inception in the year 1923. Indians second largest decorative paint player, Berger Paints is headquartered in Kolkata and services the market through a distribution network of 82 stock points and 12,000+ paint retailers. One can trace the history of Berger Paints to the 18th century. In 1770, Louis Stiegel Berger moved from Frankfurt to London to sell a Prussian blue colour, which was made using his own formula. He then changed his name to Lewis Berger and by 1870 Berger was selling 19 different pigments, including black lead, sulphur, sealing wax and mustard. After the demise of Lewis Berger his sons took over the business. Sherwin-Williams, an American company bought control of the company in the 1900s. By the 1940s Mr. Hadfield; set up Hadfield's (India) Ltd a small paint company in Calcutta on 17 December 1923. Towards the end of 1947 British Paints acquired Hadfield's (India) Ltd and thus British Paints (India) Ltd was incorporated in the State of West Bengal. In 1951, sales offices were opened in Delhi and Mumbai and a depot

was started in Guwahti. Toady the market is quite diversified and Berger is a challenger to Asian paints (41.45%) with 22 % market share./

**Table 1: Growth and PE of Indian paint industry players**

Company	Revenue (Rs. Corers)	Growth (%)	P/E
Asian Paints Ltd	13144.95	14.45	69.00x
Berger Paints (India)	4288.82	13	69.85x
Kansai Nerolac Paints	3819.29	7.92	21.80x
Shalimar Paints Ltd.	401.36	-7	68.73x

Source- Business Today, August, 2017

This resulted in sales rising to Rs. 6 million in 1952. In 1969 Berger, Jenson Nicholson Limited, UK bought the British Paints (India) Ltd. This marked the beginning of Lewis Berger's legacy in India - which the company would later take forward to enviable heights. Strategy of Berger paints was to increase Berger's present in south India through their dealer network. Through the dealer network Sherwin Williams has strongly foothold the southern market. It will also help increase Berger sales overall capacity and attain a market share 24 percent. The peers listed are the companies within the same industry. The P/E numbers are of the last financial year.

### Where Berger stands in market???

**Table 2: Comparison of Berger paints with Indian paint industry**

	Berger paint	Industry	Market
Revenue (Rs. Corers)	4288.82	32846.39	1969384.06
Market Cap (Rs. Corers)	24897.94	173210.64 5	5782359.64
Price / Sales	5.81	5.27	2.94
Profit Margin (%)	9.19	11.16	12.21
Return on Equity (%)	23.5	28.55	13.78
LT Debt / Equity	0.04	0.14	0.36
Return on Assets (%)	14.14	15.41	3.12
Dividend Yield	0.41	--	--
Beta	0.72	--	--

Source- Care ratings report, 23<sup>rd</sup> august, 2017

Indian paint market is full of potentials as well as challenges because this industry is having direct relationship with

### Literature review-

Agarwal and Rajan gupta, Gaining the Advantage Through Employee Engage-meant, (2014), Mentioned in this case that Asian paint will be among top 5 companies in paint industry as it is a professionally managed company. Their international division is contributing well towards company's goal. But the domestic and international market has difference in quality as well as in taste of colours.

Andrew Hoffman, 2010, Sherwin Williams: Splashing into the Low VOC Paint Market, that even a 125 year old giant is facing competition of market as the new trends and a different consumer perception are the key players today. Homes are no more just a shed but it's a luxury. The toxin free technology is a new swag.

Sabnavis & Bhati, 2017, in care ratings about Indian paint industry mentioned that increase in housing, growing rural India, single family concept is boosting Indian paints industry. Total value of paint industry is increased to 46,980 crore from 40,300 crore Rs. Major demand of paint is in decorative and there after the demand is still penetrating in industrial paints.

### Research Design:

- 1. Research problem-** does this acquisition is really beneficial for Berger paints ?
- 2. Data Type:** Secondary & time series Data
- 3. Time period:** 3 year ( to see pre and post merger financial position)
- 4. Type of research:** Descriptive,
- 5. Data collection:** Financial statement of Berger, Sherwin Williams and saboo coating collected from moneycontrol.com
- 6. Sample size:** 3,
- 7. Sample units-** Berger paint India ltd acquisition with the Sherwin Williams decorative business and saboo coating .
- 8. Tools –** leverage and EPS

### Data analysis:

- Berger paints acquires saboo coatings-

Chandigarh based Saboo coatings is a 23 year old private company which was particularly working in northern India for chemicals as Baddi and Delhi are hub for Pharma markets.

**Table 3: Financial Report of Berger before acquisition**

Report card of Berger before acquiring Saboo-		
Q4	2016	2017
<b>TOTAL INCOME</b>	<b>1067</b>	<b>1151</b>
<b>NET PROFIT</b>	<b>94.95</b>	<b>74.97</b>
<b>FISCAL</b>		
<b>TOTAL INCOME</b>	<b>4342</b>	<b>4657</b>
<b>NET PROFIT</b>	<b>356</b>	<b>446</b>

year	2015(in cr)	2016(IN CR)	2017(IN cr)
<b>net sales</b>	600	300	817.7
<b>Net profit</b>	0.25	0.30	0.28
<b>F O lev =</b>	0.13 = 1	0.10 = 1	0.06 =1
<b>EBIT/EBT</b>	0.13	0.10	0.06



Figure 1: Sales and profit of Berger in past 3 years

According to the data interprets that the saboo coating have the lower sales and net profit. For the new segmentation of wood and glass paint the Berger paint acquire the saboo coating. In 2015 the profit and sales were higher than after the sale is decreasing. In 2017 only 81.77 core sales.

2. Berger Company acquires Sherwin Williams ‘Decorative Business’:

Sherwin-Williams Co provides architectural paint and paint related products in the United States; and provides coatings for original-equipment manufacturers. It conducts its operations in North and South America, the Caribbean region, Europe and Asia.

Year	2015	2016	2017
Net sales	3914	4172	4538
Net profit	1809	1947	2096
Financial leverage	3914 = 2.53	4172 = 2.61	4623 = 2.99
EBIT & EBT	1549	1595	1547

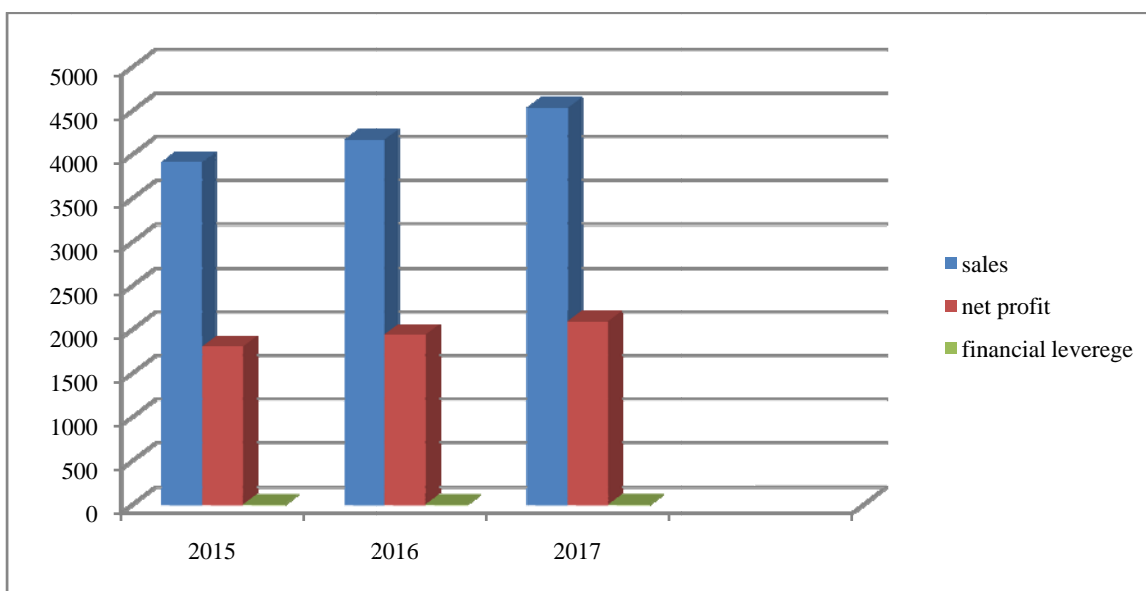
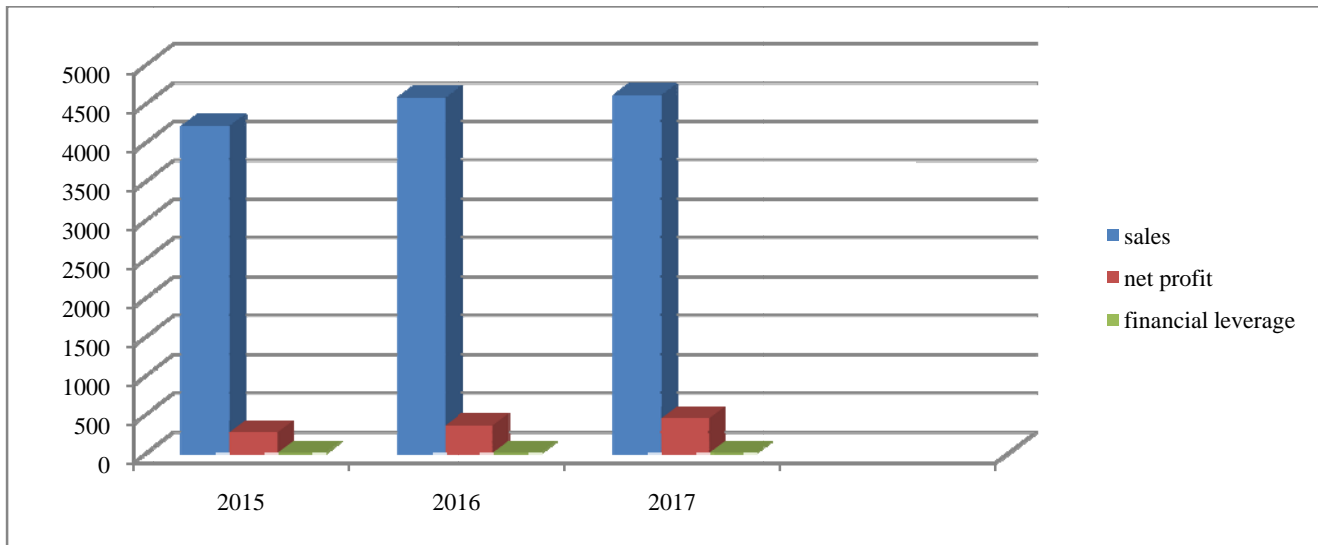


Figure 2: Financial data analysis of Sherwin after acquisition

Sherwin William is the developer of USA. The sales and profit of the company is increasing. From year 2015 to 2017 the growth of the company very higher .the financial leverage is also increases from 2.53 to2.99.

**Financial analysis of Berger Paint Company: after acquisitions of Saboo and Williams.**

Year	2015	2016	2017
Net sales	4212.94	4580.72	4608.53
Net profit	266.03	354.87	446.45
Financial leverage EBIT & EBT	770.18 =1.16	642.16 = 1.20	509.54 = 1.28



**Figure 3: Berger performance after both acquisitions**

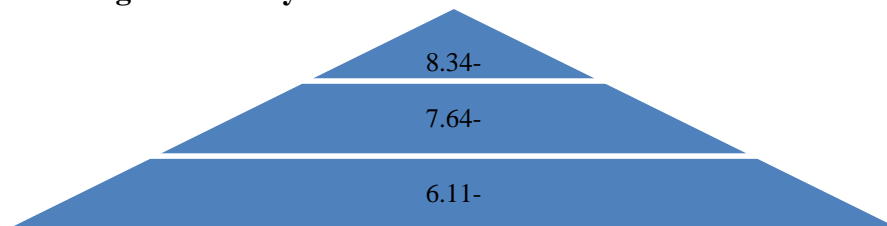
Berger paint has the higher sales in year 2017 after acquisition the rate of net profit is also higher. The financial leverage is also higher from 1.16 to 1.28.

**Current P/E Multiples**

**Table 4: Price/Earnings ratio measures increases after acquisition.**

Company.	Trailing . . . . . 2017E	<b>64.40x</b> <b>30.73x</b>
Industry..	Trailing . . . . . 2017E.	<b>32.11x</b> <b>227.86x</b>
Market. .	Trailing . . . . . 2017E.	<b>22.06x</b> <b>14.69x</b>

**Annual EPS Trend of Berger in last 3 years:**



**Figure 4- EPS**

EPS is increases after acquisition of the Berger paints with saboo coating & sherwin Williams.

---

## Conclusion

This report is an attempt to make a clear picture of paints industries of india. The paints market is very much competitive although Berger paints holds the major market share. But the growth rate of the competitors is great challenges for Berger. It's true that Berger paints is very prominent in the market because of its high quality products, competitive price rate etc.

The first choice of consumers is Berger because they can rely on it and its long lasting capabilities. After the demonetisation it increased rapidly as their target market is always middle income segment along with aggressive dealer network. It's also able to provide the consumers option of choosing variety of colours; 5000 shades within 5 minutes through its colour bank. Berger paints is very much restricts in credit policy. It provides credit only some selected dealers where as other competitors are very much liberal in credit. Paints traders, wholesalers or retailers, are naturally very much found of huge credit. Thus they key competitors gradually grow up in the market through their vast credit policy and crude will always remain the pivot. With world class range and durability, Berger is always ready to answer to all weather condition And try to satisfy every corner of the country.

## Bibliography

- [1] Andrew Hoffman, 2010, Sherwin Williams: Splashing into the Low VOC Paint Market, Harvard Business Review, case study, pg 1-16.
- [2] Agarwal and Rajan gupta, (2014)Gaining the Advantage Through Employee Engage-meant, Harvard Business Review, case study, pg 1-14.
- [3] Sabnavis & Bhati, 2017, care ratings about Indian paint industry, CARE Ratings Limited, (Formerly: CREDIT ANALYSIS & RESEARCH LIMITED).