

# Berger Paints

**SELL**

Positive surprise; expensive valuation

## Summary

Berger Paints (BRGR) reported better than expected result driven by continued strong growth momentum in decorative coatings and robust performance of subsidiaries. Positively, revenue growth of BRGR during 4QFY21 stayed ahead of competition. Management guides that they have significantly improved on distribution expansion during FY21 as compared to normal rate of 10-12%. Also, BRGR fared well on managing input cost inflation (gross margin remained flat) compared to other players in paint industry (who reported gross margin contraction). BRGR has taken c.2.5% price hike in May'21 to address rise in raw material cost and is likely to undertake more price hikes in future. We maintain our positive stance on BRGR. Driven by better than expected performance, we have upgraded our EPS estimates by 2-9% during FY22-23E. We upgrade our valuation multiple to 55x. Our revised TP stands at Rs628. We maintain SELL rating due to expensive valuation.

## Key Highlights and Investment Rationale

- Decorative continues to positively surprise, subsidiary performance shines**  
 Consolidated revenue grew 50% YoY led by strong volume growth in the domestic decorative business and robust performance of subsidiaries. Berger's revenue growth was ahead of its peers APNT (+43% YoY) and KNPL (+35%YoY). Revenue from subsidiaries grew by 27% YoY in 4QFY21 driven by strong performance in Nepal, UK and, Poland. Industrial coatings business (c. 20% revenue contribution) remains relatively un-impacted due to lockdown.
- Operating leverage drove EBITDA margin expansion**  
 Gross Margins remained flat YoY at 43.7% despite significant raw material pressure. APNT and KNPL witnessed gross margin erosion to the tune of 266 and 409bps respectively during 4QFY21. EBITDA Margin expanded for 3rd consecutive quarter by 118bps to 16.6% (highest ever quarterly margin) driven by operating leverage. PBT grew by 76% YoY while PAT grew by 99%YoY due to lower tax rate in current quarter (26.2% v/s 34.6% in Q4FY20).
- Revise our estimates upwards; maintain SELL due to expensive valuation**  
 Driven by better than expected recovery in both domestic and international business; we have revised our EPS estimates upwards by 2-9% in FY22-23E. We upgraded our P/E multiple to 55x (as per DDM). Our revised TP stands at Rs 628 (vs previous TP of Rs 523). We maintain SELL rating due to expensive valuation.

TP	Rs 628	
CMP	Rs 794	
Potential upside / downside	-21%	
Previous Rating	SELL	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	9.3	11.4
Consensus	9.6	11.5
% difference	(3.4)	(0.7)

## Shareholding Pattern (%)

Promoters	75.0
FII	11.2
DII	3.8
Public	10.0

## Price Performance (%)

	-1m	-3m	-12m
Absolute	12.9	10.6	62.1
Rel to Sensex	6.6	6.6	6.4

## Key Stock Data

Bloomberg / Reuters	BRGR IN/BRGR.BO
Sector	Paints
Shares o/s (mn)	971
Market cap. (Rs mn)	771,305
Market cap. (US\$ mn)	10,553
3-m daily average value (Rs mn)	371.9
52-week high / low	Rs 843 / 472
Sensex / Nifty	51,849 / 15,576

## Relative to Sensex (%)



## Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	60,619	63,658	68,176	79,891	93,370
EBITDA	9,355	10,610	11,880	14,820	17,868
EBITDA (%)	15.4	16.7	17.4	18.6	19.1
Adj. PAT	4,943	6,544	7,197	8,986	11,087
EPS (Rs)	5.1	6.7	7.4	9.3	11.4
EPS Growth (%)	7.3	32.4	10.0	24.8	23.4
PE (x)	150.1	113.4	103.1	82.6	66.9
Dividend Yield (%)	0.3	0.5	0.0	0.5	0.6
EV/EBITDA (x)	79.6	70.3	62.4	50.0	41.2
RoE (%)	21.3	25.6	23.8	24.5	25.9
RoCE (%)	25.3	25.9	25.8	27.4	29.6

Source: Company; IDBI Capital Research

### Conference Call Highlights

- Domestic volume grew by 60%.
- Revenue for FY21 improved by 7%, The growth was led by strong demand in market as stalled projects in Q1 & Q2 were bunched up in Q4.
- Distribution footprints increased significantly in FY21 compared to normalize rate of 10-12% expansion
- General industrial and automotive businesses continued its improved performance for Q4FY21.
- Company has taken a price increase effective 1st May 2022 of c. 2.2% to 2.5%.
- Management has indicated for another price hike on solvent based products.
- Company is committed to making 800 + Crs expenditure and has targeted to finish by March next year. The CAPEX would be largely for decorative coatings.
- The Capacity utilisation in May-21 was lower while in Apr'21 company was operating at full capacity.
- Company mentioned that it has bridged the volume value gap in decorative as demand has come back from metros.
- Bolix S.A subsidiary has been a top performer in FY21 as it improved structurally by making foray in UK, France, Switzerland.
- Management stated that waterproofing was a untapped market and it has explored the opportunity as technology involved is not much different from paints. It expects to drive this business aggressively going forward.

**Exhibit 1: Actual vs. Estimates**

(Rs mn)

	Actual	IDBI Estimate	% variation IDBI
Revenue	20,261	16,867	20.1
EBITDA	3,356	2,985	12.4
Margin(%)	16.6	18	
APAT	2,086	1,812	15.1

Source: Company; IDBI Capital Research

**Exhibit 2: Standalone Quarterly Snapshot**

(Rs mn)

Financial Snapshot	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>17,970</b>	<b>11,748</b>	<b>53.0</b>	<b>18,619</b>	<b>-3.5</b>	<b>60,214</b>	<b>56,917</b>	<b>5.8</b>
COGS	10,104	6,705	50.7	10,475	-3.5	34,386	33,674	2.1
Gross profit	7,866	5,043	56.0	8,144	-3.4	25,828	23,243	11.1
Gross Margin (%)	43.8	42.9	85 bps	43.7	3 bps	42.9	40.8	206 bps
Employee expenses	909	832	9.2	918	-1.1	3,527	3,425	3.0
% of net sales	5.1	7.1	-203 bps	4.9	12 bps	5.9	6.0	-16 bps
Other Expenses	3,931	2,302	70.8	3,444	14.2	11,343	10,241	10.8
% of net sales	21.9	19.6	228 bps	18.5	338 bps	18.8	18.0	85 bps
<b>EBITDA</b>	<b>3,027</b>	<b>1,909</b>	<b>58.6</b>	<b>3,782</b>	<b>-20.0</b>	<b>10,958</b>	<b>9,577</b>	<b>14.4</b>
EBITDA Margin (%)	16.8	16.2	60 bps	20.3	-347 bps	18.2	16.8	137 bps
Depreciation	476	432	10.2	468	1.8	1,861	1,705	9.1
<b>EBIT</b>	<b>2,550</b>	<b>1,476</b>	<b>72.7</b>	<b>3,314</b>	<b>-23.04</b>	<b>9,097</b>	<b>7,872</b>	<b>15.6</b>
Other Income	213	1,085	-80.4	152	40.1	569	1,508	-62.3
Interest Expenses	92	96	-4.5	62	47.3	332	327	1.7
<b>PBT</b>	<b>2,671</b>	<b>2,465</b>	<b>8.4</b>	<b>3,404</b>	<b>-21.5</b>	<b>9,334</b>	<b>9,054</b>	<b>3.1</b>
Taxes	676	519		868		2,378	2,064	
<b>Adjusted PAT</b>	<b>1,995</b>	<b>1,946</b>	<b>2.5</b>	<b>2,536</b>	<b>-21.3</b>	<b>6,956</b>	<b>6,990</b>	<b>-0.5</b>
Extra-ordinary items	148	0		0		148	0	
<b>Reported PAT</b>	<b>1,847</b>	<b>1,946</b>	<b>-5.1</b>	<b>2,536</b>	<b>-27.2</b>	<b>6,808</b>	<b>6,990</b>	<b>-2.6</b>
<b>Diluted EPS (Rs)</b>	<b>1.9</b>	<b>2.0</b>	<b>-5.1</b>	<b>2.6</b>	<b>-27.2</b>	<b>7.0</b>	<b>7.2</b>	<b>-2.6</b>

Source: Company; IDBI Capital Research

**Exhibit 3: Consolidated Quarterly Snapshot**

(Rs mn)

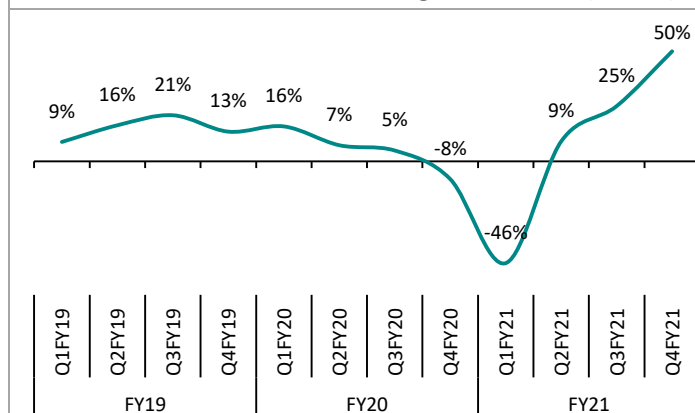
Financial Snapshot	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>20,261</b>	<b>13,548</b>	<b>49.5</b>	<b>21,182</b>	<b>-4.3</b>	<b>68,176</b>	<b>63,658</b>	<b>7.1</b>
COGS	11,410	7,639	49.4	11,812	-3.4	38,686	37,258	3.8
Gross profit	8,851	5,910	49.8	9,370	-5.5	29,490	26,400	11.7
<i>Gross Margin (%)</i>	<i>43.7</i>	<i>43.6</i>	<i>7 bps</i>	<i>44.2</i>	<i>-55 bps</i>	<i>43.3</i>	<i>41.5</i>	<i>178 bps</i>
Employee expenses	1,268	1,237	2.5	1,281	-1.0	4,851	4,525	7.2
<i>% of net sales</i>	<i>6.3</i>	<i>9.1</i>	<i>-287 bps</i>	<i>6.0</i>	<i>21 bps</i>	<i>7.1</i>	<i>7.1</i>	<i>1 bps</i>
Other Expenses	4,227	2,589	63.3	3,939	7.3	12,860	11,265	14.2
<i>% of net sales</i>	<i>20.9</i>	<i>19.1</i>	<i>176 bps</i>	<i>18.6</i>	<i>227 bps</i>	<i>18.9</i>	<i>17.7</i>	<i>117 bps</i>
<b>EBITDA</b>	<b>3,356</b>	<b>2,084</b>	<b>61.0</b>	<b>4,150</b>	<b>-19.1</b>	<b>11,779</b>	<b>10,610</b>	<b>11.0</b>
<i>EBITDA Margin (%)</i>	<i>16.6</i>	<i>15.4</i>	<i>118 bps</i>	<i>19.6</i>	<i>-303 bps</i>	<i>17.3</i>	<i>16.7</i>	<i>61 bps</i>
Depreciation	542	493	9.9	529	2.5	2,111	1,910	10.5
<b>EBIT</b>	<b>2,814</b>	<b>1,591</b>	<b>76.9</b>	<b>3,621</b>	<b>-22.30</b>	<b>9,667</b>	<b>8,700</b>	<b>11.1</b>
Other Income	150	167	-9.9	156	-3.8	616	685	-10.1
Interest Expenses	119	141	-15.2	89	34.5	441	470	-6.3
<b>PBT</b>	<b>2,845</b>	<b>1,617</b>	<b>75.9</b>	<b>3,689</b>	<b>-22.9</b>	<b>9,842</b>	<b>8,915</b>	<b>10.4</b>
Taxes	748	560		949		2,589	2,271	
<b>Adjusted PAT</b>	<b>2,097</b>	<b>1,057</b>	<b>98.5</b>	<b>2,740</b>	<b>-23.5</b>	<b>7,253</b>	<b>6,644</b>	<b>9.2</b>
Extra-ordinary items	0	0		0		0	0	
<b>Reported PAT</b>	<b>2,097</b>	<b>1,057</b>	<b>98.5</b>	<b>2,740</b>	<b>-23.5</b>	<b>7,253</b>	<b>6,644</b>	<b>9.2</b>
Minority Interest	0	5	-98.1	2	-94.7	6	17	-62.6
Share in the profit/Loss of associate	-11	-25	-56.3	10	-206.9	-56	-83	-32.4
<b>Profit attributable to owners</b>	<b>2,086</b>	<b>1,037</b>	<b>101.1</b>	<b>2,752</b>	<b>-24.2</b>	<b>7,204</b>	<b>6,578</b>	<b>9.5</b>
<b>EPS</b>	<b>2.15</b>	<b>1.07</b>	<b>101.1</b>	<b>2.83</b>	<b>-24.1</b>	<b>7.41</b>	<b>6.77</b>	<b>9.4</b>

Source: Company; IDBI Capital Research

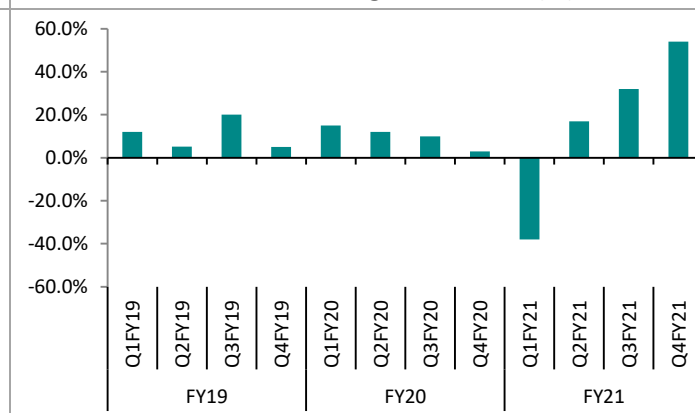
**Exhibit 4: Change in estimates**

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	75,301	79,891	6.1	85,384	93,370	9.4
EBITDA (Rs mn)	13,885	14,820	6.7	15,909	17,868	12.3
EBITDA margin (%)	18.4	18.6		18.6	19.1	
Net profit (Rs mn)	8,810	8,986	2.0	10,168	11,087	9.0
EPS (Rs)	9.1	9.3	2.0	10.5	11.4	9.0

Source: Company; IDBI Capital Research

**Exhibit 5: Consolidated revenue growth trend (% YoY)**


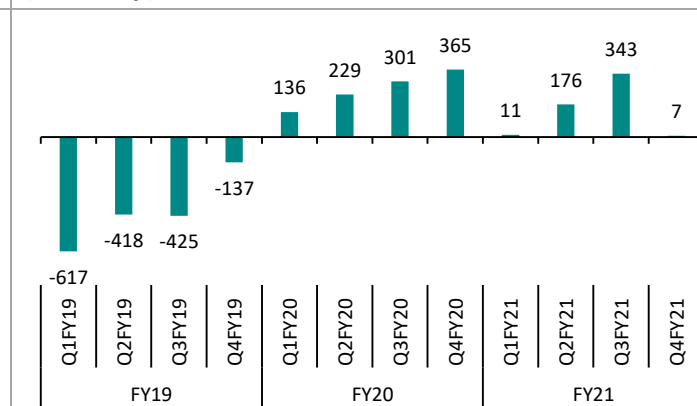
Source: Company; IDBI Capital Research

**Exhibit 6: Indicative volume growth trend (%)**


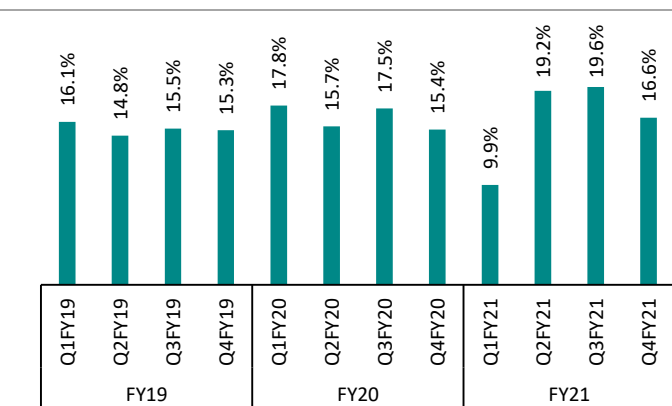
Source: Company; IDBI Capital Research

**Exhibit 7: Consolidated Gross margin trend (% YoY)**

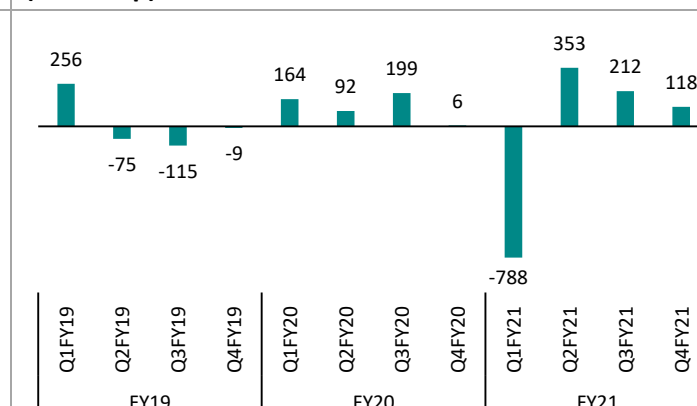

Source: Company; IDBI Capital Research

**Exhibit 8: Change in consolidated gross margin (YoY in bp)**


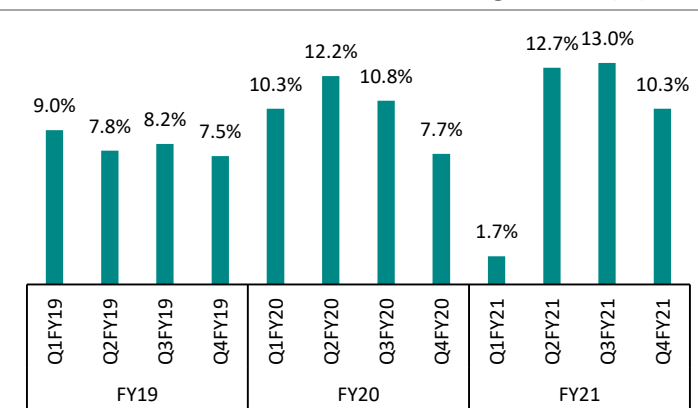
Source: Company; IDBI Capital Research

**Exhibit 9: Consolidated EBITDA margin trend (% YoY)**


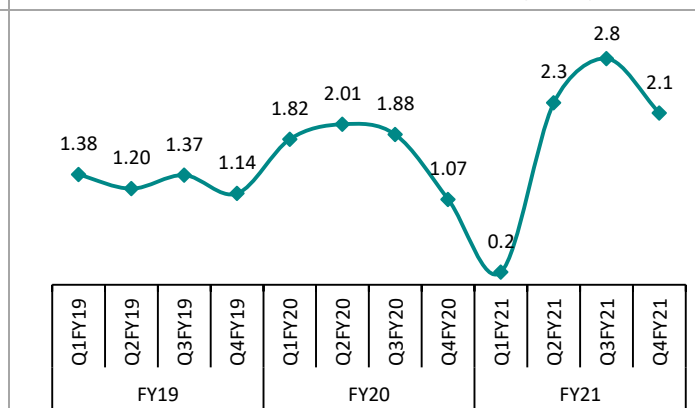
Source: Company; IDBI Capital Research

**Exhibit 10: Change in consolidated EBITDA margin (YoY in bp)**


Source: Company; IDBI Capital Research

**Exhibit 11: Consolidated Net Profit Margin trend (%)**


Source: Company; IDBI Capital Research

**Exhibit 12: BRGR consolidated EPS trend (in Rs)**


Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>63,658</b>	<b>68,176</b>	<b>79,891</b>	<b>93,370</b>
<i>growth (%)</i>	5.0	7.1	17.2	16.9
Operating expenses	(53,048)	(56,296)	(65,071)	(75,502)
<b>EBITDA</b>	<b>10,610</b>	<b>11,880</b>	<b>14,820</b>	<b>17,868</b>
<i>growth (%)</i>	13.4	12.0	24.7	20.6
Depreciation	(1,910)	(2,111)	(2,875)	(3,163)
<b>EBIT</b>	<b>8,700</b>	<b>9,768</b>	<b>11,945</b>	<b>14,706</b>
Interest paid	(470)	(441)	(422)	(422)
Other income	602	459	508	561
<b>Pre-tax profit</b>	<b>8,832</b>	<b>9,786</b>	<b>12,031</b>	<b>14,844</b>
Tax	(2,271)	(2,589)	(3,045)	(3,758)
<i>Effective tax rate (%)</i>	25.7	26.5	25.3	25.3
Minority Interest	(17.1)	0.3	0.4	0.5
<b>Net profit</b>	<b>6,544</b>	<b>7,197</b>	<b>8,986</b>	<b>11,087</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>6,544</b>	<b>7,197</b>	<b>8,986</b>	<b>11,087</b>
<i>growth (%)</i>	32.4	10.0	24.8	23.4
<i>Shares o/s (mn nos)</i>	971	971	971	971

### Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	8,832	9,842	12,100	14,929
Depreciation	1,910	2,111	2,875	3,163
Tax paid	(2,626)	(2,525)	(3,045)	(3,758)
Chg in working capital	(241)	(2,106)	(435)	(1,994)
Other operating activities	(629)	691	422	422
<b>Cash flow from operations (a)</b>	<b>7,246</b>	<b>8,014</b>	<b>11,916</b>	<b>12,762</b>
Capital expenditure	(4,350)	(1,861)	(8,000)	(3,000)
Chg in investments	1,942	(2,851)	-	-
Other investing activities	174	145	-	-
<b>Cash flow from investing (b)</b>	<b>(2,234)</b>	<b>(4,567)</b>	<b>(8,000)</b>	<b>(3,000)</b>
Equity raised/(repaid)	-	0	-	-
Debt raised/(repaid)	914	(518)	-	-
Dividend (incl. tax)	(3,816)	(291)	(3,399)	(4,435)
Chg in minorities	-	-	-	-
Other financing activities	(1,892)	(2,008)	(491)	(507)
<b>Cash flow from financing (c)</b>	<b>(4,794)</b>	<b>(2,818)</b>	<b>(3,890)</b>	<b>(4,942)</b>
<b>Net chg in cash (a+b+c)</b>	<b>219</b>	<b>629</b>	<b>26</b>	<b>4,821</b>



**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	17,863	18,164	23,290	23,127
Investments	1,358	1,459	1,459	1,459
Other non-curr assets	3,965	4,524	4,524	4,524
<b>Current assets</b>	<b>25,865</b>	<b>35,063</b>	<b>33,902</b>	<b>42,969</b>
Inventories	12,785	16,161	16,197	18,930
Sundry Debtors	7,141	10,197	8,974	10,488
Cash and Bank	2,199	4,396	4,422	9,243
<b>Total assets</b>	<b>49,050</b>	<b>59,211</b>	<b>63,174</b>	<b>72,079</b>
<b>Shareholders' funds</b>	<b>26,672</b>	<b>33,839</b>	<b>39,426</b>	<b>46,078</b>
Share capital	971	971	971	971
Reserves & surplus	25,701	32,868	38,454	45,107
<b>Total Debt</b>	<b>5,359</b>	<b>3,838</b>	<b>3,838</b>	<b>3,838</b>
Secured loans	5,359	3,838	3,838	3,838
Other liabilities	2,878	3,170	3,170	3,170
<b>Curr Liab &amp; prov</b>	<b>14,141</b>	<b>18,364</b>	<b>16,741</b>	<b>18,994</b>
Current liabilities	13,677	17,931	16,308	18,561
Provisions	464	433	433	433
<b>Total liabilities</b>	<b>22,378</b>	<b>25,371</b>	<b>23,748</b>	<b>26,001</b>
<b>Total equity &amp; liabilities</b>	<b>49,050</b>	<b>59,211</b>	<b>63,174</b>	<b>72,079</b>
<b>Book Value (Rs)</b>	<b>27</b>	<b>35</b>	<b>41</b>	<b>47</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	6.7	7.4	9.3	11.4
Adj. EPS growth (%)	32.4	10.0	24.8	23.4
EBITDA margin (%)	16.7	17.4	18.6	19.1
Pre-tax margin (%)	13.9	14.4	15.1	15.9
ROE (%)	25.6	23.8	24.5	25.9
ROCE (%)	25.9	25.8	27.4	29.6
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.3	1.3	1.3	1.4
Leverage factor (x)	1.9	1.8	1.7	1.6
Net margin (%)	10.3	10.6	11.2	11.9
Net Debt/Equity (x)	0.1	(0.0)	(0.0)	(0.1)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	73	87	74	74
Receivable days	41	55	41	41
Payable days	73	97	75	75

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	117.9	107.2	85.8	69.6
Price / Book value (x)	28.9	22.8	19.6	16.7
PCE (x)	91.2	82.8	65.0	54.1
EV / Net sales (x)	12.2	11.3	9.6	8.2
EV / EBITDA (x)	73.0	64.9	52.0	42.9
Dividend Yield (%)	0.5	0.0	0.4	0.6



# Notes

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### Key to Ratings Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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