

Berger Paints

BUY

Above expected

Summary

Berger Paints (BRGR) result for 1QFY23 was above expected. Revenue growth at 17% 3-year CAGR has been lower than APNT (20% 3-year CAGR). Revenue from subsidiaries maintains healthy revenue growth rate momentum at 51% YoY during 1QFY23. Water proofing business is trending well and growing at higher rate than paints. Gross margin contraction has been steep due to input cost inflation and accounting-adjustment for project business. BRGR expects to maintain 37-38% gross margin in FY23E. Also, BRGR would be spending more money towards brand building in Luxury Deco and Water Proofing businesses as it aims to occupy no. 1 or no. 2 position. To add 6-7k distributors in FY23E (vs previous rate of 4-5k). We maintain our estimates for FY23-24E. Our rating stands at BUY with a TP of Rs 812.

Key Highlights and Investment Rationale

- Price hikes in decorative drives revenue growth:** Consolidated revenue grew 53% YoY (17% on 3 year CAGR) led by price hikes in decorative. In Industrial coating business; general industrial and automotive business grew at healthy rate. Revenue from subsidiaries grew 51%YoY (on base of 71%YoY) driven by strong performance across subsidiaries.
- Input cost inflation impacted margins:** Gross margin contracted 283bp YoY to 35.7% due to higher raw material cost pressure. However, EBITDA margin expanded 141bp YoY to 14.7% due to cost efficiencies. Adjusted PAT grew 77%YoY to Rs 2.5 bn.
- Maintain BUY:** We broadly maintain our EPS estimates for FY23-24E. We maintain our BUY rating on the stock with a revised TP stands at Rs 812 (vs previous TP of Rs 820). We value BRGR at 60x FY24E EPS.

TP **Rs 812**CMP **Rs 675**Potential upside/downside **+20%**Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	13.7	1.4	(18.6)
Rel to Sensex	5.1	(6.0)	(27.0)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	11.0	13.5
Consensus	10.9	13.3
% difference	1.0	1.2

Key Stock Data

Bloomberg/Reuters	BRGR IN/BRGR.BO
Sector	Paints
Shares o/s (mn)	971
Market cap. (Rs mn)	655,369
3-m daily average value (Rs mn)	34.5
52-week high / low	Rs 857 / 544
Sensex / Nifty	58,853 / 17,525

Shareholding Pattern (%)

Promoters	75.0
FII	11.0
DII	3.4
Public	10.6

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	63,658	68,176	87,618	99,544	1,12,025
Change (yoy, %)	5	7	29	14	13
EBITDA	10,610	11,884	13,311	16,155	20,593
Change (yoy, %)	13	12	12	21	27
EBITDA Margin(%)	16.7	17.4	15.2	16.2	18.4
Adj.PAT	6,544	7,202	8,328	10,647	13,148
EPS (Rs)	6.7	7.4	8.6	11.0	13.5
Change (yoy, %)	32.4	10.1	15.6	27.8	23.5
PE(x)	100.1	91.0	78.7	61.6	49.8
Dividend Yield (%)	0.6	0.0	0.4	0.6	0.8
EV/EBITDA (x)	62.1	55.1	49.5	40.8	31.7
RoE (%)	25.6	23.8	22.8	25.0	26.5
RoCE (%)	25.9	25.8	24.3	25.7	28.3

Source: IDBI Capital Research

Conference call highlights

- Revenue growth stood at c. 17% 3 year CAGR. Contraction in gross margin during the quarter if adjusted for project business stands at 150bp (vs 283bp decline in 1QFY23)
- BRGR has strong presence in premium luxury category (Rs600+/litre). However, company has weak presence in luxury emulsions (Rs450-500/litre). Luxury paint market size is 10% of decorative paints market. Emulsions is c. 50% of total paint market
- Industrial coatings, 3 year revenue CAGR growth was lower compared to BRGR's revenue growth rate. Company plans to improve profitability for Industrial segment
- Revenue growth in Waterproofing was higher compared to revenue growth in Paints. Putties revenue grew c. 17-18%YoY during 1QFY23. BRGR lost market share in putties due to competitive pressures
- BRGR gained market share in South and West and maintained leadership position in East. However, performance in North and Central markets was moderate. Company plans to improve penetration in South and West through painting service
- Company to invest more in brand building in categories such as luxury paints and waterproofing (targets to become No.1 or No.2 player). In last 4-5 years, BRGR focussed on creating differentiated products such as easy clean and anti-dust (now contributes 20% to revenue) which aided gross margin expansion. However, industrial coatings (20% of revenue) diluted gross margin to some extent
- BRGR will continue to focus on paints, waterproofing and construction chemicals. Company is likely to focus on wall-papers in future. BRGR plans to launch two new products in waterproofing in August'22
- Company targets to add 6,000-7,000 dealers annually. In FY22, company had 50,000 dealers (vs 30,000 dealers 3 years back) and 42,000 tinting machines
- In Bangladesh, BRGR is 4x of APNT. Asian Paints couldn't dislodge Berger in Bangladesh. Similarly, BRGR couldn't dislodge APNT in India
- In FY23E, management expects volumes to grow in double digits, gross margin to be maintained at 37-38% and EBITDA margin at 15-17%

Exhibit 1: Standalone Quarterly Snapshot

(Rs mn)

Financial Snapshot	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Revenues	24,887	16,192	53.7	19,278	29.1	24,887	16,192	53.7
COGS	16,103	10,057	60.1	11,903	35.3	16,103	10,057	60.1
Gross profit	8,784	6,135	43.2	7,376	19.1	8,784	6,135	43.2
<i>Gross Margin (%)</i>	<i>35.3</i>	<i>37.9</i>	<i>-260bps</i>	<i>38.3</i>	<i>-297bps</i>	<i>35.3</i>	<i>37.9</i>	<i>-260bps</i>
Employee expenses	1,108	985	12.4	983	12.7	1,108	985	12.4
<i>% of net sales</i>	<i>4.5</i>	<i>6.1</i>	<i>-163bps</i>	<i>5.1</i>	<i>-65bps</i>	<i>4.5</i>	<i>6.1</i>	<i>-163bps</i>
Other Expenses	3,938	2,942	33.9	3,251	21.1	3,938	2,942	33.9
<i>% of net sales</i>	<i>15.8</i>	<i>18.2</i>	<i>-235bps</i>	<i>16.9</i>	<i>-104bps</i>	<i>15.8</i>	<i>18.2</i>	<i>-235bps</i>
EBITDA	3,737	2,208	69.3	3,142	19.0	3,737	2,208	69.3
<i>EBITDA Margin (%)</i>	<i>15.0</i>	<i>13.6</i>	<i>138bps</i>	<i>16.3</i>	<i>-128bps</i>	<i>15.0</i>	<i>13.6</i>	<i>138bps</i>
Depreciation	556	475	17.1	518	7.4	556	475	17.1
EBIT	3,182	1,733	83.6	2,624	21.25	3,182	1,733	83.6
Other Income	106	160	-33.7	190	-44.0	106	160	-33.7
Interest Expenses	140	79	76.9	117	19.2	140	79	76.9
PBT	3,148	1,814	73.5	2,696	16.7	3,148	1,814	73.5
Taxes	804	463	73.5	669	20.1	804	463	73.5
Adjusted PAT	2,344	1,351	73.5	2,027	15.6	2,344	1,351	73.5
Extra-ordinary items	0	0		0		0	0	
Reported PAT	2,344	1,351	73.5	2,027	15.6	2,344	1,351	73.5
Diluted EPS (Rs)	2.4	1.4	73.5	2.1	15.6	2.4	1.4	73.5

Source: Company; IDBI Capital Research

Exhibit 2: Consolidated Quarterly Snapshot

(Rs mn)

Financial Snapshot	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Revenues	27,597	17,985	53.4	21,875	26.2	27,597	17,985	53.4
COGS	17,731	11,047	60.5	13,364	32.7	17,731	11,047	60.5
Gross profit	9,866	6,938	42.2	8,511	15.9	9,866	6,938	42.2
<i>Gross Margin (%)</i>	<i>35.7</i>	<i>38.6</i>	<i>-283bps</i>	<i>38.9</i>	<i>-316bps</i>	<i>35.7</i>	<i>38.6</i>	<i>-283bps</i>
Employee expenses	1,460	1,310	11.4	1,341	8.9	1,460	1,310	11.4
<i>% of net sales</i>	<i>5.3</i>	<i>7.3</i>	<i>-199bps</i>	<i>6.1</i>	<i>-84bps</i>	<i>5.3</i>	<i>7.3</i>	<i>-199bps</i>
Other Expenses	4,357	3,243	34.4	3,705	17.6	4,357	3,243	34.4
<i>% of net sales</i>	<i>15.8</i>	<i>18.0</i>	<i>-224bps</i>	<i>16.9</i>	<i>-115bps</i>	<i>15.8</i>	<i>18.0</i>	<i>-224bps</i>
EBITDA	4,048	2,385	69.7	3,464	16.9	4,048	2,385	69.7
<i>EBITDA Margin (%)</i>	<i>14.7</i>	<i>13.3</i>	<i>141bps</i>	<i>15.8</i>	<i>-117bps</i>	<i>14.7</i>	<i>13.3</i>	<i>141bps</i>
Depreciation	628	548	14.6	598	5.1	628	548	14.6
EBIT	3,420	1,837	86.2	2,867	19.31	3,420	1,837	86.2
Other Income	130	170	-23.4	191	-31.8	130	170	-23.4
Interest Expenses	163	96	69.7	146	11.3	163	96	69.7
PBT	3,388	1,912	77.2	2,912	16.4	3,388	1,912	77.2
Taxes	886	498	77.7	762	16.3	886	498	77.7
Adjusted PAT	2,502	1,413	77.1	2,151	16.4	2,502	1,413	77.1
Extra-ordinary items	0	0		0		0	0	
Reported PAT	2,502	1,413	77.1	2,151	16.4	2,502	1,413	77.1
Minority Interest	0	-1		-4		0	-1	
Share in the profit/Loss of associate	0	-8		52		0	-8	
Profit attributable to owners	2,502	1,404	78.3	2,199	13.8	2,502	1,404	78.3
EPS	2.58	1.45	78.0	2.27	13.4	2.58	1.45	78.0

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

	Actual	IDBI Estimate	% variation IDBI
Revenue	27,597	20,555	34.3%
EBITDA	4,048	3,168	27.8%
Margin (%)	14.7%	15%	
APAT	2,502	1,998	25.2%

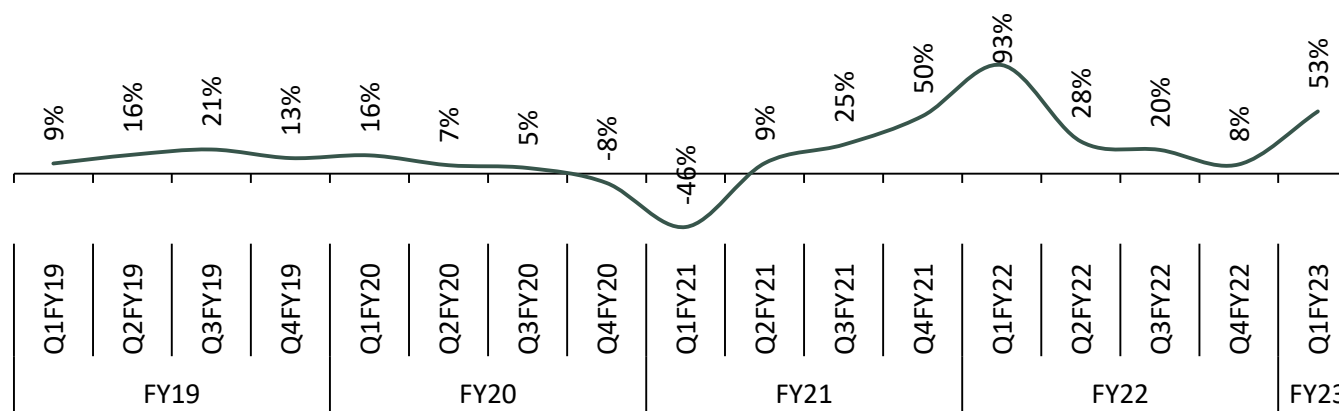
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%)Chg
Revenue (Rs mn)	99,340	99,544	0.2%	111774	1,12,025	0.2%
EBITDA (Rs mn)	17,553	16,155	-8.0%	21037	20,593	-2.1%
EBITDA margin (%)	17.7%	16.2%		18.82%	18.38%	
Net profit (Rs mn)	10,808	10,647	-1.5%	13275	13,148	-1.0%
EPS (Rs)	11.1	11.0	-1.5%	14	13.54	-1.0%

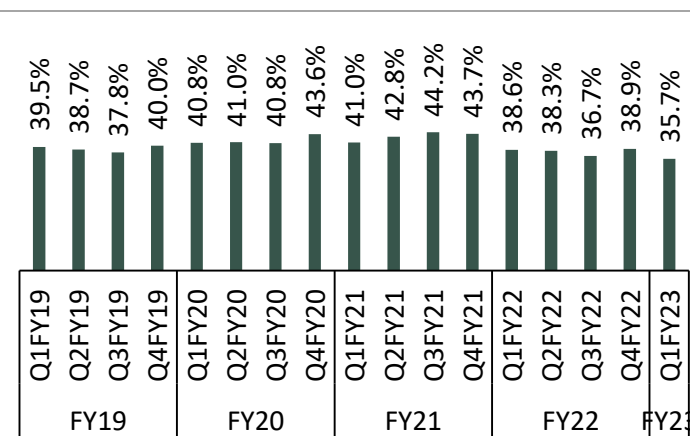
Source: Company; IDBI Capital Research

Exhibit 5: Consolidated revenue growth trend (% YoY)



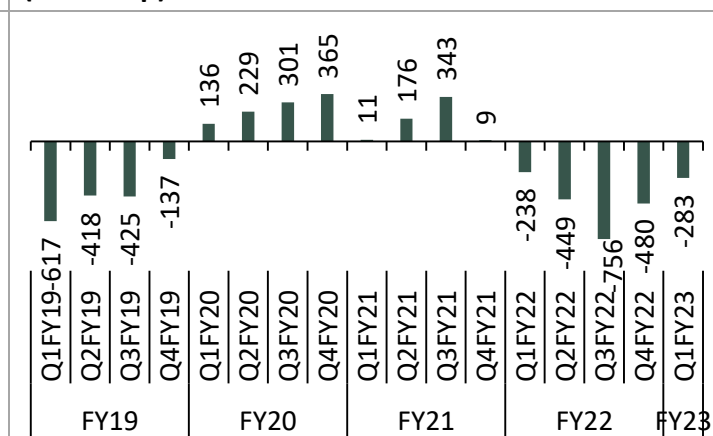
Source: Company; IDBI Capital Research

Exhibit 6: Consolidated Gross margin trend (% YoY)



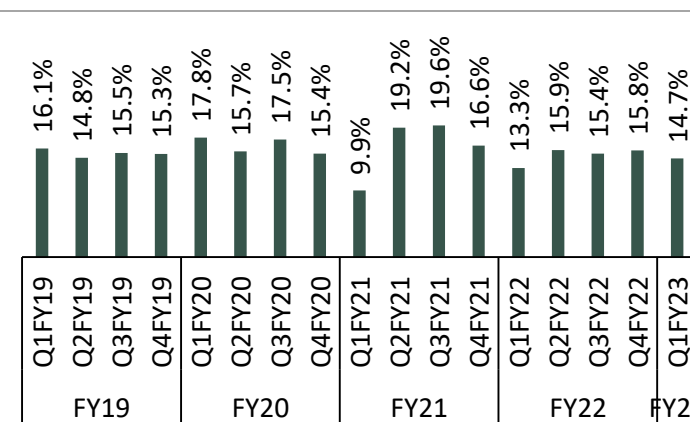
Source: Company; IDBI Capital Research

Exhibit 7: Change in consolidated gross margin (YoY in bp)



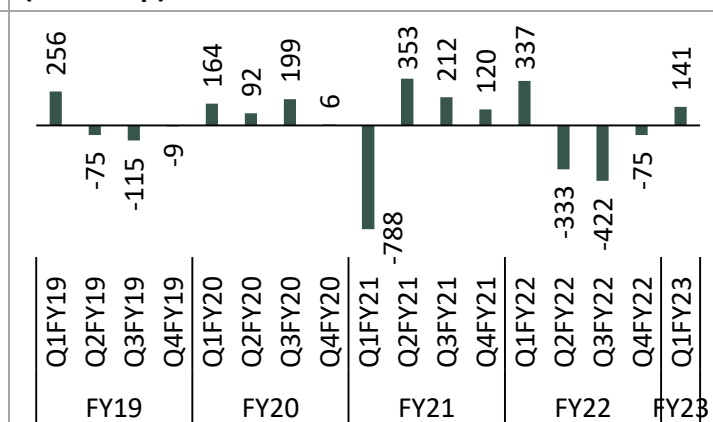
Source: Company; IDBI Capital Research

Exhibit 8: Consolidated EBITDA margin trend (% YoY)



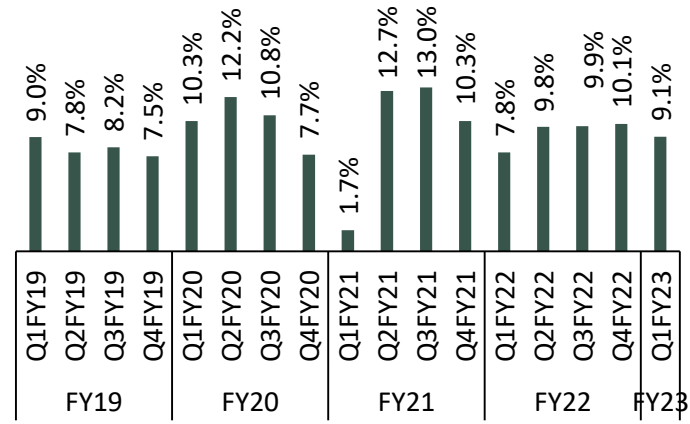
Source: Company; IDBI Capital Research

Exhibit 9: Change in consolidated EBITDA margin (YoY in bp)



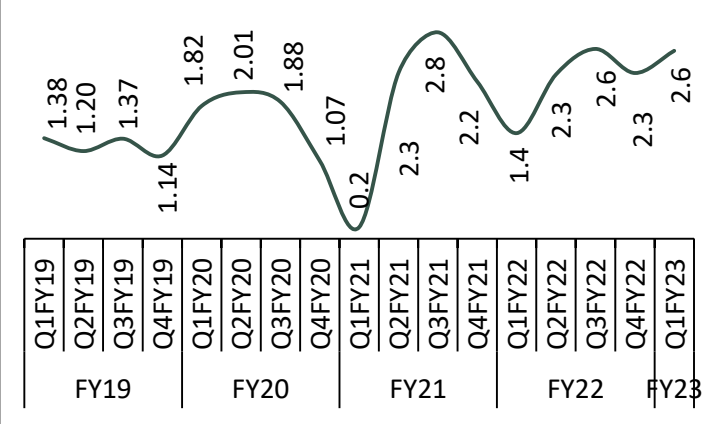
Source: Company; IDBI Capital Research

Exhibit 10: Consolidated Net Profit Margin trend (%)



Source: Company; IDBI Capital Research

Exhibit 11: BRGR consolidated EPS trend (in Rs)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	60,619	63,658	68,176	87,618	99,544	1,12,025
<i>Change (yoy, %)</i>	17.3	5.0	7.1	28.5	13.6	12.5
Operating expenses	(51,263)	(53,048)	(56,292)	(74,307)	(83,389)	(91,433)
EBITDA	9,355	10,610	11,884	13,311	16,155	20,593
<i>Change (yoy, %)</i>	15.9	13.4	12.0	12.0	21.4	27.5
<i>Margin (%)</i>	15.4	16.7	17.4	15.2	16.2	18.4
Depreciation	(1,823)	(1,910)	(2,111)	(2,265)	(2,438)	(3,451)
EBIT	7,533	8,700	9,772	11,046	13,717	17,142
Interest paid	(472)	(470)	(441)	(507)	(521)	(735)
Other income	600	602	459	685	1,018	1,145
Pre-tax profit	7,661	8,832	9,790	11,223	14,213	17,553
Tax	(2,713)	(2,271)	(2,589)	(2,893)	(3,565)	(4,403)
<i>Effective tax rate (%)</i>	35.4	25.7	26.4	25.8	25.1	25.1
Minority Interest	4.1	(17.1)	0.3	(1.3)	(1.6)	(2.0)
Net profit	4,952	6,544	7,202	8,328	10,647	13,148
Exceptional items	9	-	-	-	-	-
Adjusted net profit	4,943	6,544	7,202	8,328	10,647	13,148
<i>Change (yoy, %)</i>	7.3	32.4	10.1	15.6	27.8	23.5
EPS	5.1	6.7	7.4	8.6	11.0	13.5
Dividend per sh	2	4	0	3	4	5
<i>Dividend Payout %</i>	43	58	4	33	40	40

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	24,473	26,672	33,839	39,342	45,730	53,618
Share capital	971	971	971	971	971	971
Reserves & surplus	23,502	25,701	32,868	38,370	44,758	52,647
Total Debt	4,839	5,359	3,838	6,679	6,679	6,679
Other liabilities	3,075	2,878	3,170	4,170	4,170	4,170
Curr Liab & prov	13,284	14,141	18,364	21,936	20,543	22,629
Current liabilities	12,964	13,677	17,931	21,535	20,142	22,228
Provisions	320	464	433	401	401	401
Total liabilities	21,197	22,378	25,371	32,785	31,392	33,478
Total equity & liabilities	45,670	49,050	59,211	72,127	77,122	87,096
Net fixed assets	14,843	17,863	18,164	23,695	29,473	29,022
Investments	1,441	1,358	1,459	1,471	1,471	1,471
Other non-curr assets	3,560	3,965	4,524	6,387	6,387	6,387
Current assets	25,826	25,865	35,063	40,574	37,431	47,542
Inventories	12,335	12,785	16,161	23,158	20,182	22,712
Sundry Debtors	6,715	7,141	10,197	10,537	11,182	12,584
Cash and Bank	2,385	2,199	4,396	3,130	2,319	8,496
Loans and advances	-	-	-	-	-	-
Total assets	45,670	49,050	59,211	72,127	77,122	87,096

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	7,715	8,832	9,846	11,184	14,165	17,492
Depreciation	1,378	1,910	2,111	2,265	2,438	3,451
Tax paid	(2,431)	(2,626)	(2,525)	(2,992)	(3,565)	(4,403)
Chg in working capital	(1,367)	(241)	(2,106)	(4,198)	939	(1,847)
Other operating activities	322	(629)	691	(910)	521	735
Cash flow from operations (a)	5,617	7,246	8,018	5,349	14,497	15,428
Capital expenditure	(3,182)	(4,350)	(1,861)	(7,740)	(8,216)	(3,000)
Chg in investments	(1,031)	1,942	(2,851)	2,275	-	-
Other investing activities	122	174	145	252	-	-
Cash flow from investing (b)	(4,091)	(2,234)	(4,567)	(5,213)	(8,216)	(3,000)
Equity raised/(repaid)	0	-	0	-	0	-
Debt raised/(repaid)	1,191	914	(518)	2,104	-	-
Dividend (incl. tax)	(2,105)	(3,816)	(291)	(2,720)	(4,259)	(5,259)
Chg in minorities	-	-	-	-	-	(2)
Other financing activities	(878)	(1,892)	(2,008)	(166)	(737)	(991)
Cash flow from financing (c)	(1,791)	(4,794)	(2,818)	(781)	(4,996)	(6,253)
Net chg in cash (a+b+c)	(265)	219	633	(645)	1,286	6,176

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	25	27	35	41	47	55
Adj EPS (Rs)	5.1	6.7	7.4	8.6	11.0	13.5
Adj EPS growth (%)	7.3	32.4	10.1	15.6	27.8	23.5
EBITDA margin (%)	15.4	16.7	17.4	15.2	16.2	18.4
Pre-tax margin (%)	12.6	13.9	14.4	12.8	14.3	15.7
Net Debt/Equity (x)	0.1	0.1	(0.0)	0.1	0.1	(0.0)
ROCE (%)	25.3	25.9	25.8	24.3	25.7	28.3
ROE (%)	21.3	25.6	23.8	22.8	25.0	26.5

DuPont Analysis

Asset turnover (x)	1.4	1.3	1.3	1.3	1.4	1.4
Leverage factor (x)	1.8	1.9	1.8	1.8	1.7	1.6
Net margin (%)	8.2	10.3	10.6	9.5	10.7	11.7

Working Capital & Liquidity ratio

Inventory days	74	73	87	96	74	74
Receivable days	40	41	55	44	41	41
Payable days	71	73	97	89	73	75

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	132.6	100.1	91.0	78.7	61.6	49.8
Price/Book value (x)	26.8	24.6	19.4	16.7	14.3	12.2
EV/Net sales (x)	10.8	10.3	9.6	7.5	6.6	5.8
EV/EBITDA (x)	70.3	62.1	55.1	49.5	40.8	31.7
Dividend Yield (%)	0.3	0.6	0.0	0.4	0.6	0.8

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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