

## Retail Equity Research

# Berger Paints Limited

Paints

BSE CODE: 509480

NSE CODE: BERGEPAIN

Bloomberg CODE: BRGR:IN

SENSEX: 43,357

**HOLD**

12M Investment period Rating as per Large Cap  
CMP Rs. 651 TARGET Rs. 673 RETURN 3% ↑  
(Closing:12-11-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Outlook remains guarded; Rich valuation

Berger Paints India is the second largest paint company in the domestic market with 10 strategically located manufacturing units and a countrywide distribution network of 26,500 active dealers.

- Consolidated revenue in Q2FY21 increased 87.2% sequentially to Rs. 1,743cr, post-COVID impact, mainly due to increase in volumes. We expect the volume to increase further in Q3FY21 backed by upcoming festival season and resumption of construction activity.
- EBITDA margin improved 350bps YoY to 19.2% due to high margin product mix and moderate costs. As a result, PAT increased 13.6% YoY to Rs. 221cr.
- Though we see increasing trend with volume and good set of numbers from subsidiary, valuation remains rich and hence we reiterate our HOLD rating on the stock with a revised target price of Rs. 673 based on 68x FY22E adj. EPS.

### Robust performance in Q2FY21

Berger Paints presented a good set of numbers in Q2FY21. Consolidated revenue increased 9.0% YoY with drastic pick up in sales volume post opening up of COVID-led lockdown. Domestic decorative business performed well when compared with general industrial and protective coatings business in this quarter. Company has carried out various cost optimization strategies which resulted in lesser material cost of Rs. 750cr in Q2FY21 (vs. Rs. 863cr in Q2FY20). Consolidated net debt remains stable at Rs. 571cr in Q2FY21 (vs Rs. 577cr in FY20).

### Margin expansion beats consensus estimate

Consolidated EBITDA was recorded as Rs. 335cr (33.5% YoY) while EBITDA margin expanded 350bps YoY to 19.2% on account of optimized cost mix. Resultantly, PAT came in at Rs. 221cr (significant increase on sequential basis). We expect the company to maintain its EBITDA margin around 20.0% in Q3FY21 on the account of good demand owing to the upcoming festive season.

### Key concall highlights

- The management is actively looking to spread its selling point via E-commerce platform, which may further boost volumes and market share. The company is also encouraging digital advertising as a part of its strategic move.
- EBITDA margin gap between BRGR and the leaser is less in the decorative segment. The management expects overall margin to improve with good demand across all segments.
- Tier II/Tier III towns, rural areas showed better growth in volumes in Q2FY21 as compared to the metros, which showcase better distribution reach.
- Over the long term, waterproofing is expected to become a significant part of the company's decorative segment.

### Valuation

The company has presented a robust performance in Q2FY21 with pick-ups in volume across major segments (decorative) and regions (tier II/tier III/rural). Also, there was improvement seen in margins due to optimized cost mix. However, we think the valuation remains very expensive and hence reiterate our HOLD rating on the stock with a revised target price of Rs. 673 based on 68x FY22E adj. EPS.

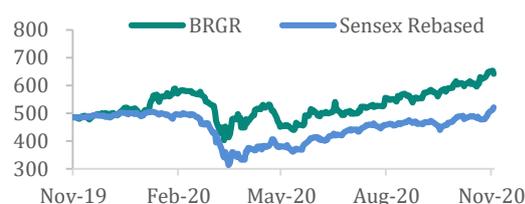
### Company Data

Market Cap (cr)	Rs. 62,939
Enterprise Value (cr)	Rs. 63,079
Outstanding Shares (cr)	97.1
Free Float	25.0%
Dividend Yield	0.3%
52 week high	Rs. 675
52 week low	Rs. 390
6m average volume (lacs)	0.6
Beta	1.0
Face value	Rs. 1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	75.5	75.5	75.5
FII's	7.8	11.8	11.5
MFs/Insti	6.9	3.0	3.8
Public	7.4	7.3	7.2
Others	2.4	2.3	2.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	18.3%	43.2%	34.0%
Absolute Sensex	13.5%	38.1%	8.1%
Relative Return*	4.8%	5.0%	25.9%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	6,366	6,041	7,346
Growth (%)	5.0	(5.1)	21.6
EBITDA	1,061	1,096	1,501
EBITDA Margin (%)	16.7	18.1	20.4
Adj. PAT	658	663	963
Growth (%)	33.1	0.8	45.2
Adj. EPS	6.8	6.8	9.9
Growth (%)	33.1	0.8	45.2
P/E	73.4	94.9	65.4
P/B	18.2	20.3	16.4
EV/EBITDA	46.1	57.5	41.7
ROE (%)	24.7	21.4	25.1
D/E	0.3	0.2	0.2

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	1,743	1,599	9.0	931	87.2	2,673	3,315	(19.4)
<b>EBITDA</b>	<b>335</b>	<b>251</b>	<b>33.5</b>	<b>92</b>	<b>264.0</b>	<b>427</b>	<b>556</b>	<b>(23.2)</b>
EBITDA margins	19.2	15.7	350bps	9.9	930bps	16.0	16.8	(80bps)
Depreciation	54	47	13.7	50	6.7	104	93	11.4
<b>EBIT</b>	<b>281</b>	<b>204</b>	<b>38.1</b>	<b>42</b>	<b>574.6</b>	<b>323</b>	<b>463</b>	<b>(30.2)</b>
Interest	11	10	5.1	12	(11.9)	23	20	14.7
Other Income	23	16	47.4	8	196.0	31	38	(17.5)
Exceptional Items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>294</b>	<b>209</b>	<b>40.4</b>	<b>37</b>	<b>690.3</b>	<b>331</b>	<b>480</b>	<b>(31.1)</b>
Tax	72	13	455.3	18	306.8	89	107	(16.8)
Share of profit from Associate	(1)	(2)	36.3	(4)	76.1	(6)	(2)	(207.8)
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>221</b>	<b>195</b>	<b>13.6</b>	<b>15</b>	<b>n.m.</b>	<b>236</b>	<b>371</b>	<b>(36.3)</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>221</b>	<b>195</b>	<b>13.6</b>	<b>15</b>	<b>n.m.</b>	<b>236</b>	<b>371</b>	<b>(36.3)</b>
No. of shares	97.1	97.1	(0.0)	97.1	-	97.1	97.1	(0.0)
<b>Adj. EPS (Rs.)</b>	<b>2.3</b>	<b>2.0</b>	<b>13.6</b>	<b>0.2</b>	<b>n.m.</b>	<b>2.4</b>	<b>3.8</b>	<b>(36.3)</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	6,054	7,247	6,041	7,346	(0.2)	1.4
EBITDA	1,016	1,506	1,096	1,501	7.9	(0.4)
Margins (%)	16.8	20.8	18.1	20.4	130bps	(40bps)
Adj. PAT	618	992	663	963	7.3	(3.1)
Adj. EPS	6.4	10.2	6.8	9.9	7.3	(3.1)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>5,282</b>	<b>6,062</b>	<b>6,366</b>	<b>6,041</b>	<b>7,346</b>
% change	4.6	14.8	5.0	(5.1)	21.6
<b>EBITDA</b>	<b>807</b>	<b>936</b>	<b>1,061</b>	<b>1,096</b>	<b>1,501</b>
% change	12.3	15.9	13.4	3.3	36.9
Depreciation	124	182	191	218	224
<b>EBIT</b>	<b>683</b>	<b>753</b>	<b>870</b>	<b>879</b>	<b>1,276</b>
Interest	25	47	47	46	48
Other Income	46	60	69	62	68
<b>PBT</b>	<b>704</b>	<b>766</b>	<b>891</b>	<b>894</b>	<b>1,296</b>
% change	1.6	8.8	16.4	0.3	44.9
Tax	244	271	227	225	326
Tax Rate (%)	34.6	35.4	25.5	25.2	25.2
<b>Reported PAT</b>	<b>461</b>	<b>494</b>	<b>658</b>	<b>663</b>	<b>963</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>461</b>	<b>494</b>	<b>658</b>	<b>663</b>	<b>963</b>
% change	7.3	7.3	33.1	0.8	45.2
No. of shares (cr)	97.1	97.1	97.1	97.1	97.1
<b>Adj EPS (Rs.)</b>	<b>4.7</b>	<b>5.1</b>	<b>6.8</b>	<b>6.8</b>	<b>9.9</b>
% change	7.2	7.3	33.1	0.8	45.2
DPS (Rs.)	1.8	1.9	2.2	2.3	2.4
CEPS (Rs.)	6.0	7.0	8.7	9.1	12.2

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>585</b>	<b>677</b>	<b>849</b>	<b>881</b>	<b>1,187</b>
Non-cash adj.	(171)	94	(100)	48	82
Changes in W.C	8	(160)	(24)	(81)	(178)
<b>C.F. Operation</b>	<b>422</b>	<b>611</b>	<b>725</b>	<b>848</b>	<b>1,091</b>
Capital exp.	(290)	(291)	(431)	(136)	(294)
Change in inv.	100	(106)	190	-	-
Other invest.CF	6	18	17	-	-
<b>C.F - Investment</b>	<b>(183)</b>	<b>(379)</b>	<b>(223)</b>	<b>(136)</b>	<b>(294)</b>
Issue of equity	-	0	0	-	-
Issue/repay debt	29	(18)	(66)	(200)	-
Dividends paid	(205)	(211)	(382)	(223)	(233)
Other finance.CF	(25)	(30)	(31)	(46)	(48)
<b>C.F - Finance</b>	<b>(200)</b>	<b>(259)</b>	<b>(479)</b>	<b>(470)</b>	<b>(282)</b>
Chg. in cash	38	(27)	22	243	516
Closing cash	205	238	220	463	978

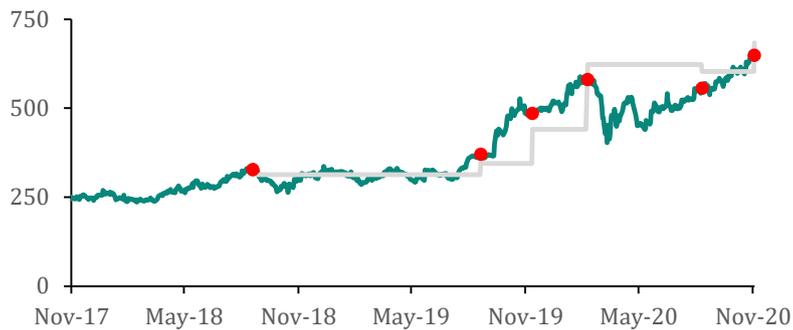
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	205	238	220	463	978
Accounts Receivable	692	671	714	755	882
Inventories	1,007	1,234	1,278	1,211	1,419
Other Cur. Assets	455	439	374	377	384
Investments	106	144	136	128	119
Gross Fixed Assets	1,291	1,416	1,847	1,983	2,277
Net Fixed Assets	998	1,037	1,321	1,222	1,275
CWIP	97	170	178	187	197
Intangible Assets	269	546	595	600	606
Def. Tax (Net)	1	10	6	5	8
Other Assets	113	77	83	85	87
<b>Total Assets</b>	<b>3,943</b>	<b>4,567</b>	<b>4,905</b>	<b>5,035</b>	<b>5,955</b>
Current Liabilities	1,225	1,288	1,372	1,262	1,431
Provisions	5	7	10	12	12
Debt Funds	429	733	797	597	597
Other Liabilities	90	92	59	58	82
Equity Capital	97	97	97	97	97
Reserves & Surplus	2,097	2,347	2,563	3,003	3,732
Shareholder's Fund	2,195	2,444	2,660	3,100	3,829
Minority Interest	-	3	7	5	3
<b>Total Liabilities</b>	<b>3,943</b>	<b>4,567</b>	<b>4,905</b>	<b>5,035</b>	<b>5,955</b>
<b>BVPS (Rs.)</b>	<b>23</b>	<b>25</b>	<b>27</b>	<b>32</b>	<b>39</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	15.3	15.4	16.7	18.1	20.4
EBIT margin (%)	12.9	12.4	13.7	14.5	17.4
Net profit mgn.(%)	8.7	8.2	10.3	11.0	13.1
ROE (%)	21.0	20.2	24.7	21.4	25.1
ROCE (%)	26.0	23.7	25.1	23.7	28.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	47.8	40.4	40.9	45.6	43.8
Inventory (days)	117.6	121.7	125.2	131.4	127.8
Payables (days)	111.5	98.6	104.4	104.0	100.4
Current ratio (x)	1.7	1.6	1.5	2.0	2.3
Quick ratio (x)	0.8	0.7	0.7	1.0	1.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.4	4.5	3.9	3.2	3.4
Total asset T.O (x)	1.4	1.4	1.3	1.2	1.3
Int. coverage ratio (x)	27.8	15.9	18.5	19.0	26.3
Adj. debt/equity (x)	0.2	0.3	0.3	0.2	0.2
<b>Valuation</b>					
EV/Sales (x)	4.7	5.2	7.7	10.4	8.5
EV/EBITDA (x)	30.8	33.9	46.1	57.5	41.7
P/E (x)	53.5	63.2	73.4	94.9	65.4
P/BV (x)	11.2	12.8	18.2	20.3	16.4

## Recommendation Summary



Dates	Rating	Target
27-Aug-18	REDUCE	313
29-Aug-19	REDUCE	345
20-Nov-19	REDUCE	441
17-Feb-20	HOLD	623
19-Aug-20	HOLD	603
13-Nov-20	HOLD	673

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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