

Retail Equity Research

Berger Paints Limited

Paints

BSE CODE: 509480

NSE CODE: BERGEPAIN

Bloomberg CODE: BRGR:IN

SENSEX: 40,470

REDUCE

12M Investment period

Rating as per Large Cap

CMP Rs 485

TARGET Rs 441

RETURN -9%

(Closing: 19-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Rich valuation leads to Reduce

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 rose 7.3% YoY to Rs. 1,599cr in Q2FY20, missing street estimates by 4.1%.
- Gross margin improved ~230bps YoY to 41.0%, while EBIT margin improved ~100bps YoY to 12.8% in Q2FY20, aided by reduced raw material cost and partially offset by increasing other expense cost.
- PAT increased 67.1% YoY to Rs. 195cr in Q2FY20 with minimal benefits from corporate tax rate cut.
- Better monsoon, government boost in real estate sector & recent fall in crude oil price expected to provide volume growth to the Industry. However, considering the rich valuations, we maintain our REDUCE rating on the stock, with a revised target price of Rs 441 based on ~50x FY21E adj. EPS.

Protective coating, decorative business continue to drive growth

Double digit volume growth recorded for decorative business in Q2FY20 in spite of extended monsoon in some parts of the country and complete shut down in Jammu and Kashmir. In terms of sales, growth in decorative business was much higher than overall company growth rate. The company has been considered as a market leader in protective coating business with market share more than 20% and 2nd or 3rd position in powder coating business. The company expects buoyancy to continue in protective business. There was a loss in the company's share of JV's on account of the downturn in automotive business. The company's primary focus has been on network expansion as the fundamental growth strategy.

Key concall highlights

- Raw material costs continue to remain benign due to recent fall in crude oil prices.
- Company took three price decreases in some solvent based paints in May, July and September 2019, in order to pass on the raw materials price reduction to the customers, with combined effect of about 1.6%.
- Active dealers count for the company increased at 10% to 12% per annum with 26,500 active dealers in Q2FY20.
- The company didn't have a large impact of the recent tax benefits.
- Saboo coating was impacted due to industrial exposure, while BJNI Nepal witnessed strong quarter with increased sales and improved margins.

Potential challenges

The decorative segment is expected to have a positive future subject to monsoon conditions. Management foresees potential challenges in the form of volatile crude oil prices, adverse movement in exchange rates and demand conditions in the automotive sector to hamper growth. The management also expects the infrastructure and protective coating segment to sustain its growth in the near future.

Valuation

We estimate PAT to grow at 31.2% FY19-21E CAGR and EBITDA margin to improve to ~17.0% by FY21E. The stock rallied more than 50% in last 3 months thus considering rich valuations and challenging business environment in which it operates, we retain our REDUCE rating with a target price of Rs. 441 based on ~50x FY21E adj. EPS.

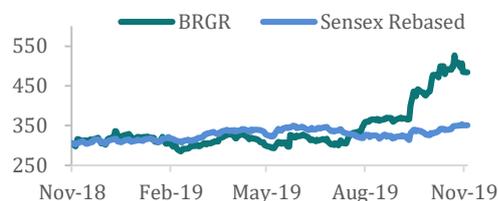
Company Data

Market Cap (cr)	Rs.47,171
Enterprise Value (cr)	Rs.47,426
Outstanding Shares (cr)	97.1
Free Float	25.0%
Dividend Yield	0.4%
52 week high	Rs.534
52 week low	Rs.284
6m average volume	61,687
Beta	1.0
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	75.0	75.0	75.0
FII's	5.4	5.4	6.0
MFs/Insti	8.4	8.2	7.4
Public	7.1	7.3	7.4
Others	4.1	4.1	4.2
Total	100.0	100.0	100.0
Promoter's pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	34.8%	62.6%	58.5%
Absolute Sensex	7.9%	6.2%	13.6%
Relative Return*	27.4%	54.9%	43.8%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	6,062	6,850	7,877
Growth (%)	14.8	13.0	15.0
EBITDA	882	1,120	1,346
EBITDA Margin (%)	14.5	16.3	17.1
Adj. PAT	498	690	856
Growth (%)	8.0	38.7	24.0
Adj. EPS	5.1	7.1	8.8
Growth (%)	8.0	38.7	24.0
P/E	62.8	68.3	55.1
P/B	12.6	15.9	13.0
EV/EBITDA	35.8	42.4	35.0
ROE (%)	20.1	23.3	23.6
D/E	0.2	0.2	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	1,599	1,490	7.3	1,717	(6.9)	3,315	2,973	11.5
EBITDA	251	220	14.0	305	(17.7)	556	447	24.3
EBITDA margins	15.7	14.8	90bps	17.8	(210bps)	16.8	15.0	180bps
Depreciation	47	45	5.4	46	2.3	93	79	18.5
EBIT	204	176	16.1	259	(21.3)	463	369	25.6
Interest	10	12	(10.2)	10	4.4	20	15	32.0
Other Income	14	12	20.5	21	(34.4)	35	29	22.8
Exceptional Items	-	-	n.m.	0	(100.0)	0	-	n.m.
PBT	208	176	18.2	271	(23.4)	478	382	25.2
Tax	13	59	(78.2)	94	(86.3)	107	131	(17.9)
Share of profit from Associate	(2)	(0)	380.0	(0)	1,300.0	(2)	0	(500.0)
Minority Interest	-	-	n.m.	(0)	(100.0)	(0)	-	n.m.
Reported PAT	195	116	67.1	177	10.1	371	251	47.8
Adjustments	-	-	n.m.	-	n.m.	-	-	n.m.
Adjusted PAT	195	116	67.1	177	10.1	371	251	47.8
No. of shares	97.1	97.1	(0.2)	97.1	-	97.1	97.1	(0.2)
EPS (Rs)	2.0	1.2	67.6	1.8	10.1	3.8	2.6	48.1

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	7,014	8,136	6,850	7,877	(2.3)	(3.2)
EBITDA	1,104	1,314	1,120	1,346	1.4	1.2
Margins (%)	15.7	16.2	16.3	17.1	60bps	56bps
Adj. PAT	628	762	690	856	10.0	12.3
EPS	6.5	7.8	7.1	8.8	10.0	12.8



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	5,050	5,282	6,062	6,850	7,877
% change	8.5	4.6	14.8	13.0	15.0
EBITDA	719	807	882	1,120	1,346
% change	10.7	12.3	9.2	27.0	20.2
Depreciation	108	124	138	204	230
EBIT	611	683	744	916	1,116
Interest	16	25	32	52	50
Other Income	109	47	59	59	79
PBT	703	705	771	923	1,145
% change	26.4	0.2	9.3	19.8	24.0
Tax	229	244	273	233	289
Tax Rate (%)	32.6	34.6	35.4	25.2	25.2
Reported PAT	474	461	498	690	856
Adj*	(44)	-	-	-	-
Adj PAT	429	461	498	690	856
% change	16.9	7.3	8.0	38.7	24.0
No. of shares (cr)	97.1	97.1	97.1	97.1	97.1
Adj EPS (Rs)	4.4	4.7	5.1	7.1	8.8
% change	(16.6)	7.2	8.0	38.7	24.0
DPS (Rs)	1.8	1.8	1.9	1.9	1.9
CEPS (Rs)	5.5	6.0	6.5	9.2	11.2

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	582	585	636	894	1,086
Non-cash adj.	(42)	(171)	86	47	79
Changes in W.C	(145)	8	(160)	(148)	(200)
C.F. Operation	395	422	562	793	965
Capital exp.	(264)	(290)	(317)	(377)	(433)
Change in inv.	(95)	100	(105)	(150)	(50)
Other invest.CF	51	6	12	0	0
C.F - Investment	(308)	(183)	(409)	(527)	(483)
Issue of equity	0	-	0	0	0
Issue/repay debt	51	29	62	0	0
Dividends paid	(117)	(205)	(211)	(205)	(185)
Other finance.CF	(16)	(25)	(30)	(52)	(50)
C.F - Finance	(82)	(200)	(179)	(257)	(235)
Chg. in cash	4	38	(27)	10	247
Closing cash	102	205	238	248	495

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	102	205	238	248	495
Accounts Receivable	578	692	671	772	904
Inventories	935	1,007	1,234	1,402	1,656
Other Cur. Assets	442	455	440	542	543
Investments	105	106	144	194	244
Gross Fixed Assets	1,113	1,291	1,474	1,850	2,284
Net Fixed Assets	950	998	1,095	1,148	1,328
CWIP	62	97	170	282	296
Intangible Assets	186	269	277	283	288
Def. Tax (Net)	1	1	1	1	1
Other Assets	79	113	92	95	98
Total Assets	3,440	3,943	4,363	4,966	5,854
Current Liabilities	1,035	1,225	1,288	1,417	1,613
Provisions	4	5	7	9	11
Debt Funds	412	429	500	500	500
Other Liabilities	87	90	92	79	97
Equity Capital	97	97	97	97	97
Reserves & Surplus	1,804	2,097	2,376	2,861	3,533
Shareholder's Fund	1,902	2,195	2,473	2,959	3,630
Minority Interest	-	-	3	3	3
Total Liabilities	3,440	3,943	4,363	4,966	5,854
BVPS (Rs)	20	23	25	30.5	37.4

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	14.2	15.3	14.5	16.3	17.1
EBIT margin (%)	12.1	12.9	12.3	13.4	14.2
Net profit mgn.(%)	9.4	8.7	8.2	10.1	10.9
ROE (%)	24.9	21.0	20.1	23.3	23.6
ROCE (%)	26.4	26.0	25.0	26.5	27.0
W.C & Liquidity					
Receivables (days)	41.8	47.8	40.4	41.2	41.9
Inventory (days)	110.5	117.6	121.7	122.4	123.2
Payables (days)	89.9	111.5	98.6	97.8	97.1
Current ratio (x)	1.7	1.7	1.7	1.8	1.9
Quick ratio (x)	0.9	0.8	0.8	0.8	0.9
Turnover & Leverage					
Gross asset T.O (x)	4.5	4.4	4.4	4.1	3.8
Total asset T.O (x)	1.6	1.4	1.5	1.5	1.5
Int. covge. ratio (x)	37.6	27.8	23.0	17.5	22.2
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.1
Valuation					
EV/Sales (x)	4.6	4.7	5.2	6.9	6.0
EV/EBITDA (x)	32.5	30.8	35.8	42.4	35.0
P/E (x)	53.7	53.5	62.8	68.3	55.1
P/BV (x)	12.1	11.2	12.6	15.9	13.0

Recommendation Summary



Dates	Rating	Target
27-Aug-18	REDUCE	313
29-Aug-19	REDUCE	345
20-Nov-19	REDUCE	441

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0%- 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.
Neutral - The analyst has no investment opinion on the stock under review.

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