

Q1FY22 result review
and earnings revisionConsumer Staples &
Discretionary

Target price: Rs850

Earnings revision

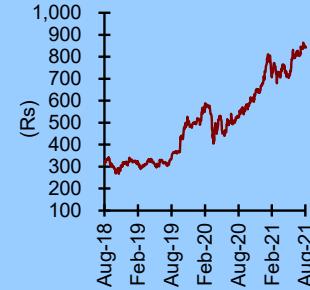
| (%) | FY22E | FY23E |
|---------|-------|-------|
| Revenue | ↑ 2.4 | ↑ 2.4 |
| EBITDA | ↑ 1.5 | ↑ 1.5 |
| EPS | ↑ 1.8 | ↑ 1.7 |

Shareholding pattern

| | Dec '20 | Mar '21 | Jun '21 |
|-------------------------|---------|---------|---------|
| Promoters | 75.0 | 75.0 | 75.0 |
| Institutional investors | 15.2 | 15.3 | 15.3 |
| MFs and other | 0.9 | 0.8 | 0.9 |
| Insurance co | 2.6 | 3.0 | 3.0 |
| FII | 11.7 | 11.5 | 11.4 |
| Others | 9.8 | 9.7 | 9.7 |

Source: BSE

Price chart



Research Analysts:

Aniruddha Joshi
aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

Manoj Menon
manoj.menon@icicisecurities.com
+91 22 6637 7209

Aniket Sethi
aniket.sethi@icicisecurities.com
+91 22 2277 7632

Karan Bhawania
karan.bhuwania@icicisecurities.com
+91 22 6637 7351

INDIA



Berger Paints

HOLD
Maintained

Likely market share gains in value-for-money
emulsions, putty and waterproofing

Rs829

Berger's Q1FY22 was stronger than consensus and our estimates. We believe the company has continued to gain market shares in low priced emulsions, waterproofing and putty markets from smaller/ unorganized players. Its revenue growth trajectory was slightly better than Asian Paints but tad weaker than Kansai. Berger's gross margin (38.6%) was also comparable with Asian Paints (38.4%) but Berger's EBITDA margin was 13.3% compared to 16.4% EBITDA margin of Asian Paints. While we remain structurally positive on (1) Berger's strong positioning in value-for-money paints, (2) established distribution network especially in East India, (3) aggressive growth strategy and innovation and (4) high probability of market share gains in ancillary segments such as waterproofing and putty, we believe the premium valuations are unjustified and maintain HOLD rating with DCF based revised TP of Rs850.

- ▶ **Q1FY22 results:** Berger reported consolidated revenue, EBITDA, PAT growth of 93.2%, 159% and 812.1%, respectively. (Two-year revenue and PAT CAGR was 2.4% and -10.5%, respectively). We believe volume growth was ~100% YoY. Key reasons for strong performance were (1) recovery in metros and tier-1 cities, (2) recovery in industrial paints and (3) favorable base. Gross margin declined 240bps YoY due to higher input prices but EBITDA margin expanded 337bps due to cost saving initiatives. Standalone business reported revenue and PAT growth of 96% and 172%, respectively.
- ▶ **Revenue recovery better than peers:** Berger's Q1FY22 revenue growth of 93.2% was better Asian Paints (91.1%) and Indigo (49.2%) but lower than Kansai (119.6%). We believe Berger has continued to gain market shares at the value-for-money emulsions and distempers.
- ▶ **Rising input prices but some margin tailwinds:** Input prices are up 10-100% YoY but we model Berger to report 60bps lower EBITDA margins in FY22 over FY21 due to (1) increase in revenue share of premium paints with recovery in metros, (2) selective price hikes and lower trade schemes, (3) cost saving initiatives, (4) operating leverage and (5) positive contribution from ancillary businesses.
- ▶ **Maintain HOLD:** We model Berger to report revenue and PAT CAGRs of 17.4% and 18.6% YoY respectively over FY21-23. RoE is expected to be stable ~24% over FY21-23. However, we believe the stock price upside is limited at current valuations and hence maintain HOLD rating with a DCF based target price of Rs850. Key upside risk is higher-than-expected market share gains in paints. Key downside risks are steep increase in input prices and increase in competitive pressure.

| Market Cap | Rs804bn/US\$10.8bn | Year to March (cons) | FY20 | FY21P | FY22E | FY23E |
|-------------------------|--------------------|----------------------|--------|--------|--------|--------|
| Reuters/Bloomberg | BRGR.BO/BRGR IN | Net Revenue (Rs mn) | 63,658 | 68,176 | 81,991 | 93,889 |
| Shares Outstanding (mn) | 971.3 | Net Profit (Rs mn) | 6,388 | 7,323 | 8,665 | 10,116 |
| 52-week Range (Rs) | 865/524 | Dil. EPS (Rs) | 6.8 | 7.4 | 8.9 | 10.4 |
| Free Float (%) | 25.0 | % Chg YoY | 32.1 | 9.4 | 20.4 | 16.8 |
| FII (%) | 11.4 | P/E (x) | 122.3 | 111.8 | 92.9 | 79.6 |
| Daily Volume (US\$'000) | 12,256 | CEPS (Rs) | 8.8 | 9.6 | 11.3 | 13.1 |
| Absolute Return 3m (%) | 15.5 | EV/EBITDA (x) | 76.4 | 67.9 | 58.7 | 51.2 |
| Absolute Return 12m (%) | 56.6 | Dividend Yield (%) | 0.3 | 0.3 | 0.4 | 0.4 |
| Sensex Return 3m (%) | 11.6 | RoCE (%) | 21.3 | 20.0 | 20.7 | 21.0 |
| Sensex Return 12m (%) | 44.3 | RoE (%) | 25.9 | 24.0 | 23.9 | 23.9 |

Table 1: Q1FY22 financial performance (consolidated)

(Rs mn, year ending March 31)

| | Q1FY22 | Q1FY21 | % YoY | Q4FY21 | % QoQ |
|--------------------------|---------------|--------------|--------------|---------------|---------------|
| Net revenues | 17,985 | 9,308 | 93.2 | 20,261 | (11.2) |
| Raw materials | 11,047 | 5,495 | 101.0 | 11,410 | (3.2) |
| % of sales | 61% | 59% | 238 bps | 56% | 511 bps |
| Employee costs | 1,310 | 1,162 | 12.8 | 1,268 | 3.3 |
| % of sales | 7.3% | 12.5% | -520 bps | 6.3% | 103 bps |
| Other expenditure | 3,243 | 1,729 | 87.5 | 4,227 | (23.3) |
| % of sales | 18% | 19% | -55 bps | 21% | -283 bps |
| Total expenditure | 15,600 | 8,387 | 86.0 | 16,905 | (7.7) |
| EBITDA | 2,385 | 921 | 159.0 | 3,356 | (28.9) |
| <i>EBITDA margin (%)</i> | 13.3% | 9.9% | 337 bps | 16.6% | -330 bps |
| Other income | 170 | 78 | 117.5 | 150 | 13.5 |
| PBDIT | 2,556 | 999 | 155.8 | 3,506 | (27.1) |
| Depreciation | 548 | 504 | 8.9 | 542 | 1.2 |
| PBIT | 2,007 | 496 | 305.0 | 2,964 | (32.3) |
| Interest | 96 | 124 | (22.7) | 119 | (19.7) |
| PBT | 1,912 | 372 | 414.3 | 2,845 | (32.8) |
| Tax | 498 | 176 | 183.0 | 748 | (33.3) |
| % of PBT | 26% | 47% | -2130 bps | 26% | -21 bps |
| Extraordinary | (105) | (34) | | 30 | |
| PAT | 1,309 | 161 | 710.8 | 2,127 | (38.5) |
| Share in Associates | (7) | (41) | (83.8) | (11) | (36.8) |
| Reported PAT | 1,302 | 120 | 984.9 | 2,116 | (38.5) |
| Adjusted PAT | 1,407 | 154 | 812.1 | 2,086 | (32.6) |

Source: Company data, I-Sec research

Table 2: Q1FY22 financial performance (standalone)

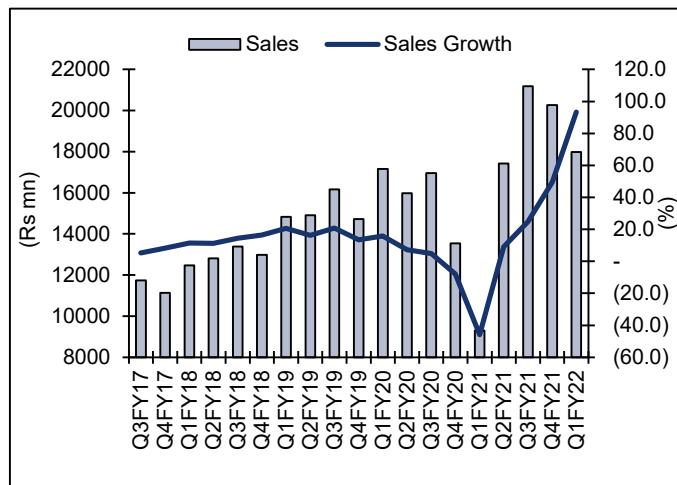
(Rs mn, year ending March 31)

| | Q1FY22 | Q1FY21 | % YoY | Q4FY21 | % QoQ |
|----------------------------|---------------|--------------|--------------|---------------|---------------|
| Net revenues | 16,192 | 8,261 | 96.0 | 17,970 | (9.9) |
| Raw materials | 10,057 | 4,943 | 103.4 | 10,104 | (0.5) |
| % of sales | 62% | 60% | 227 bps | 56% | 588 bps |
| Employee costs | 985 | 878 | 12.3 | 909 | 8.5 |
| % of sales | 6% | 11% | -454 bps | 5% | 103 bps |
| Other expenditure | 2,942 | 1,306 | 125.4 | 3,931 | (25.2) |
| % of sales | 18% | 16% | 237 bps | 22% | -370 bps |
| Total expenditure | 13,984 | 7,126 | 96.2 | 14,944 | (6.4) |
| EBITDA | 2,208 | 1,135 | 94.5 | 3,027 | (27.1) |
| <i>EBITDA margin (%)</i> | 13.6% | 13.7% | -10 bps | 16.8% | -321 bps |
| Other income | 160 | 71 | 126.8 | 213 | (24.8) |
| PBDIT | 2,368 | 1,206 | 96.4 | 3,240 | (26.9) |
| Depreciation | 475 | 444 | 6.9 | 476 | (0.4) |
| PBIT | 1,893 | 762 | 148.6 | 2,763 | (31.5) |
| Interest | 79 | 88 | (9.6) | 92 | (13.9) |
| PBT | 1,814 | 674 | 169.2 | 2,671 | (32.1) |
| Tax | 463 | 176 | 163.3 | 676 | (31.5) |
| % of PBT | 26% | 26% | -57 bps | 25% | 22 bps |
| PAT | 1,351 | 498 | 171.3 | 1,995 | (32.3) |
| Extraordinary items | 0 | (4) | | (131) | |
| Reported PAT | 1,351 | 494 | 173.3 | 1,864 | (27.5) |
| Adjusted PAT | 1,351 | 497 | 172.0 | 1,995 | (32.3) |

Source: Company data, I-Sec research

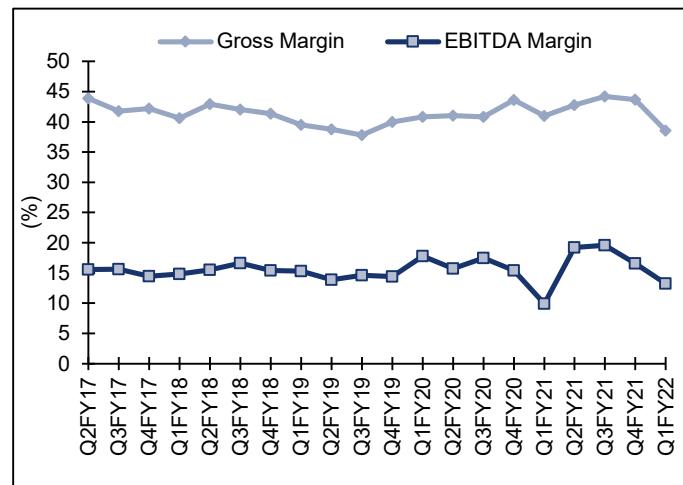
Quarterly operational highlights (Consolidated)

Chart 1: Revenues and Growth rates



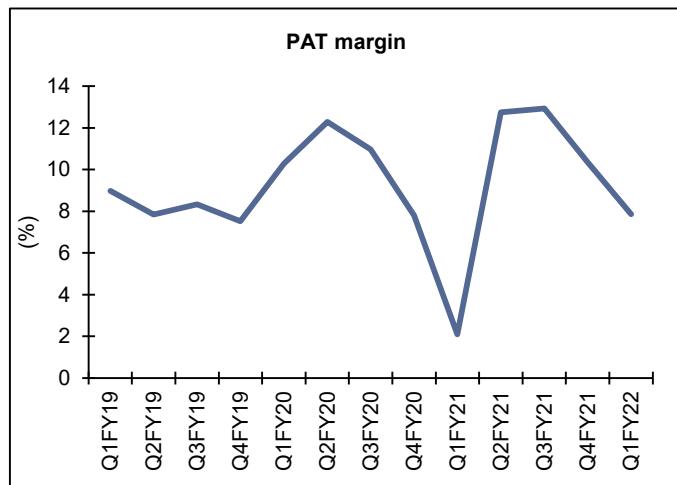
Source: Company data, I-Sec research

Chart 2: Gross and EBITDA margins



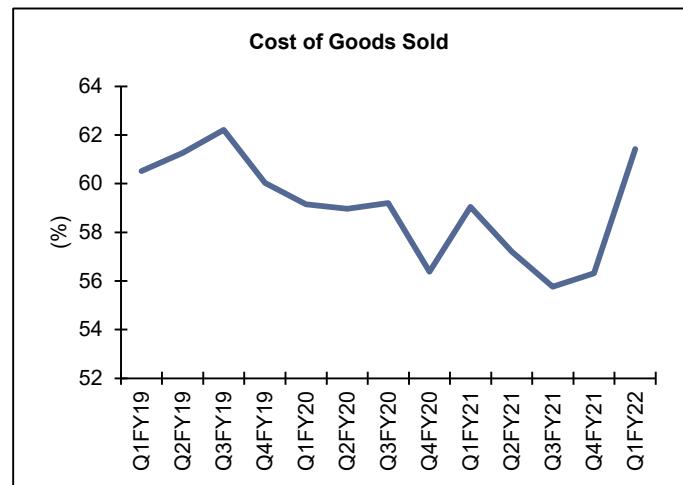
Source: Company data, I-Sec research

Chart 3: PAT margin



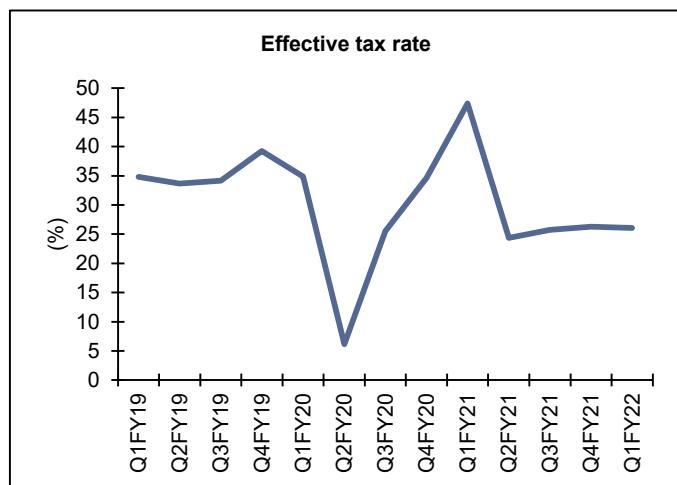
Source: Company data, I-Sec research

Chart 4: COGS as % of Net sales



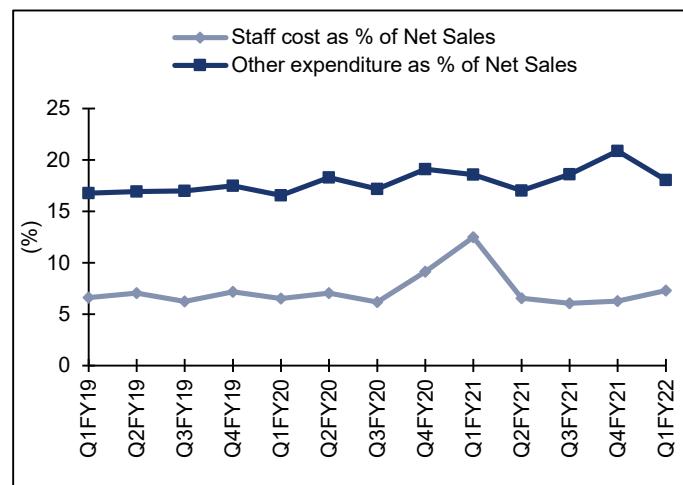
Source: Company data, I-Sec research

Chart 5: Effective tax rate



Source: Company data, I-Sec research

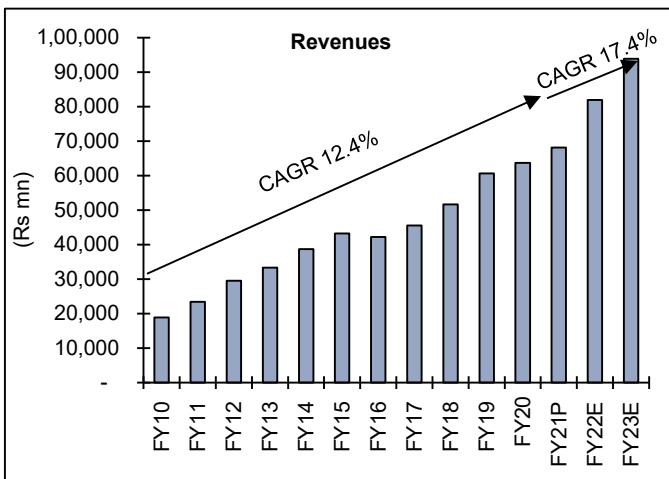
Chart 6: Staff cost and other expenditure



Source: Company data, I-Sec research

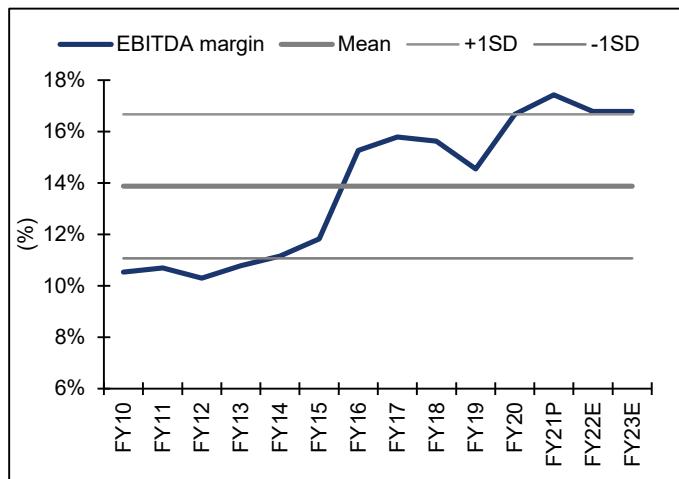
Operational highlights - Annual (Consolidated)

Chart 7: Revenues and growth rates



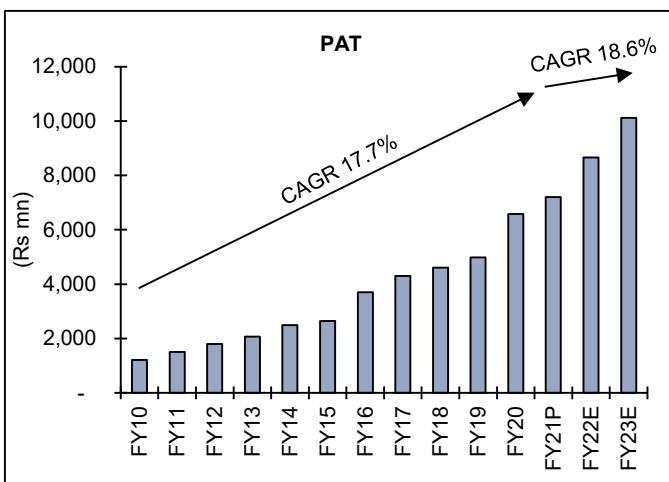
Source: Company data, I-Sec research

Chart 8: EBITDA margin



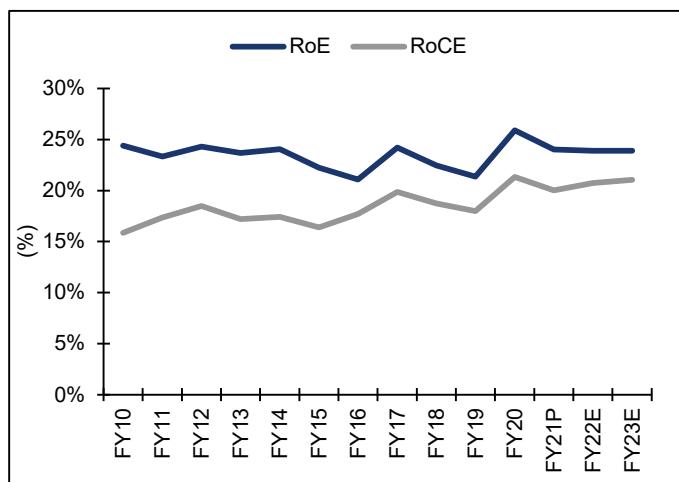
Source: Company data, I-Sec research

Chart 9: PAT and growth rates



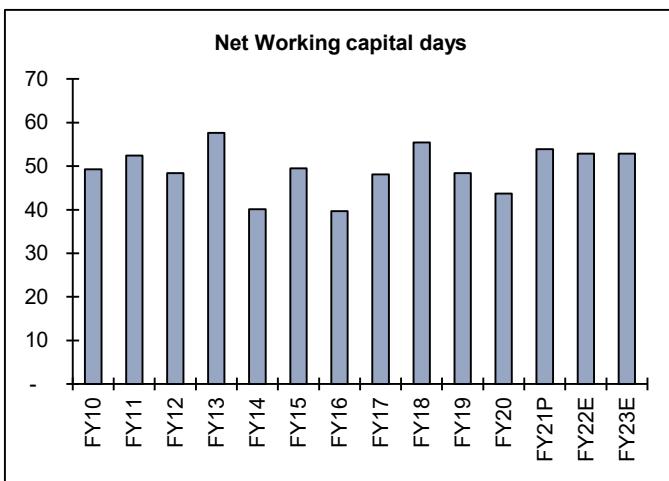
Source: Company data, I-Sec research

Chart 10: RoE & RoCE



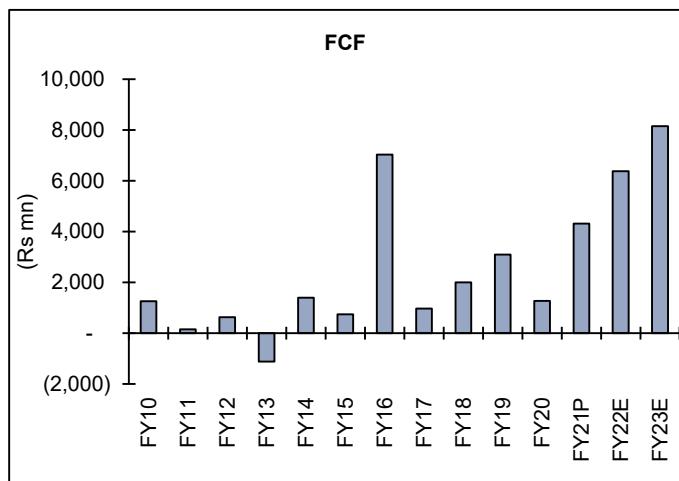
Source: Company data, I-Sec research

Chart 11: Net working capital days



Source: Company data, I-Sec research

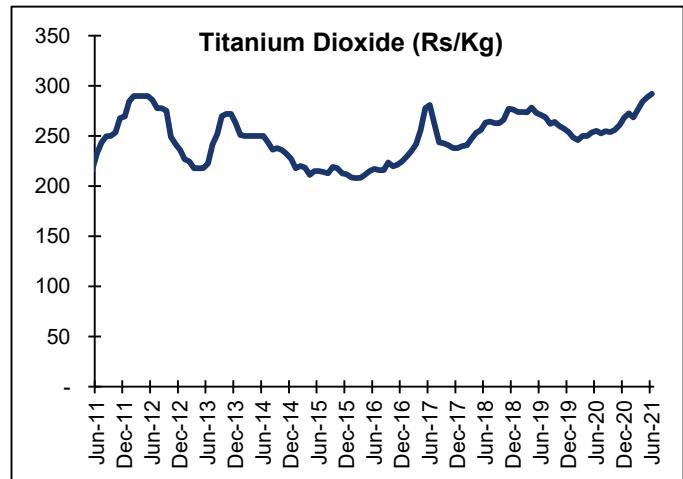
Chart 12: Free cash-flow



Source: Company data, I-Sec research

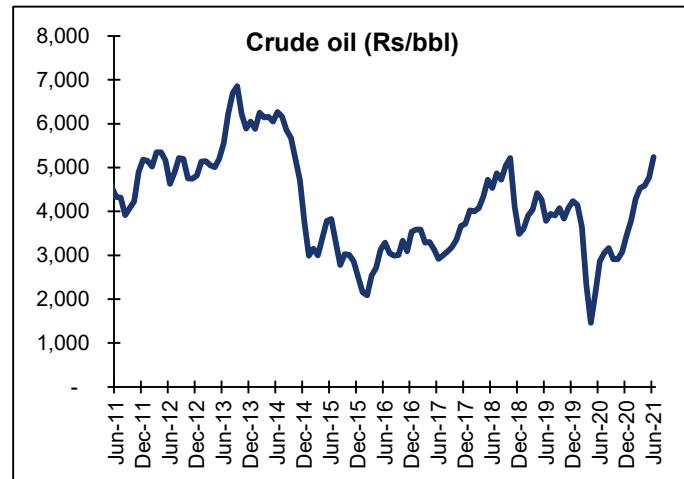
Key raw material prices

Chart 13: Titanium di-oxide



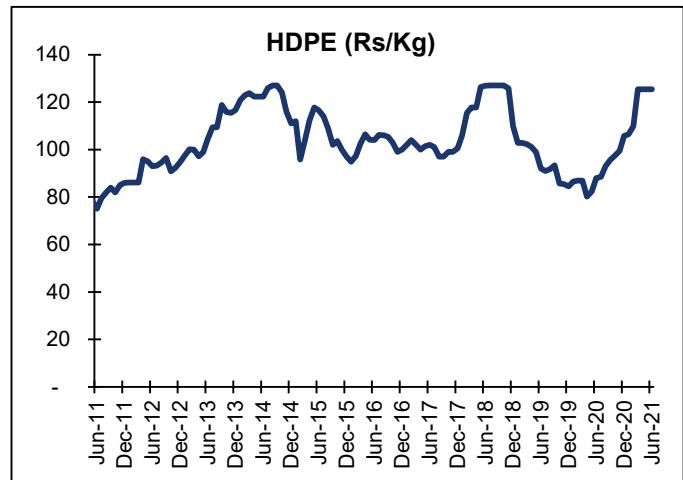
Source: Company data, I-Sec research

Chart 14: Crude oil



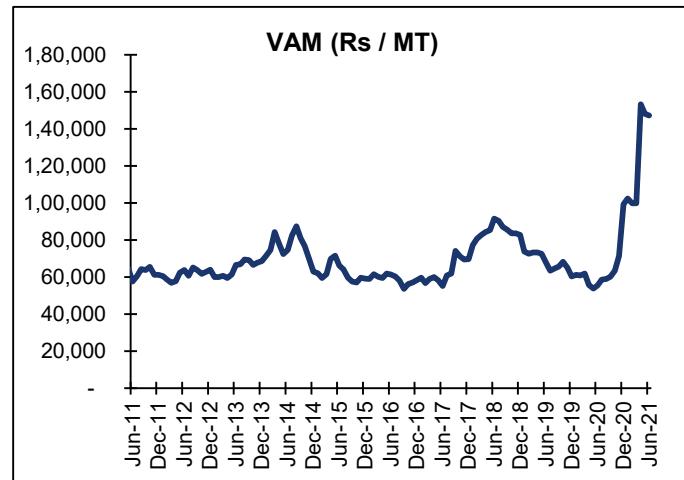
Source: Company data, I-Sec research

Chart 15: Packaging material - HPDE

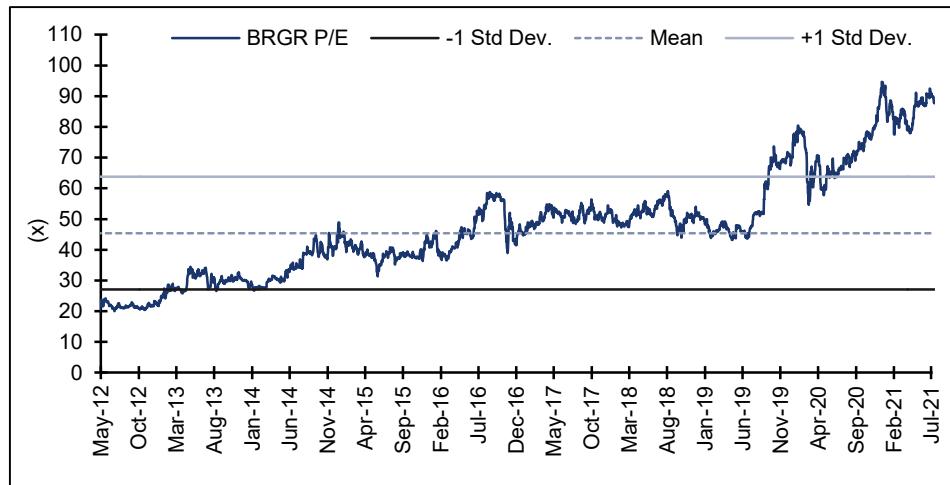


Source: Company data, I-Sec research

Chart 16: VAM prices



Source: Company data, I-Sec research

Chart 17: Mean PE and Standard deviation

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|------------------------------|---------------|---------------|---------------|---------------|
| Net Revenues | 63,658 | 68,176 | 81,991 | 93,889 |
| Operating Expenses | 53,048 | 56,296 | 68,232 | 78,136 |
| EBITDA | 10,610 | 11,880 | 13,759 | 15,753 |
| % margins | 16.7% | 17.4% | 16.8% | 16.8% |
| Depreciation & Amortisation | 1,910 | 2,111 | 2,288 | 2,526 |
| Gross Interest | 470 | 441 | 464 | 485 |
| Other Income | 685 | 515 | 651 | 856 |
| Recurring PBT | 8,915 | 9,842 | 11,658 | 13,599 |
| Less: Taxes | 2,271 | 2,589 | 2,938 | 3,427 |
| Less: Minority Interest | (66) | (56) | (56) | (56) |
| Net Income (Reported) | 6,578 | 7,198 | 8,665 | 10,116 |
| Extraordinaries (Net) | 190 | (125) | - | - |
| Recurring Net Income | 6,388 | 7,323 | 8,665 | 10,116 |

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|--|---------------|---------------|---------------|---------------|
| Assets | | | | |
| Total Current Assets | 24,071 | 32,966 | 38,679 | 45,126 |
| of which cash & cash eqv. | 2,199 | 4,396 | 4,320 | 5,781 |
| Total Current Liabilities & Provisions | 14,141 | 18,364 | 22,314 | 25,552 |
| Net Current Assets | 9,930 | 14,602 | 16,365 | 19,574 |
| Investments | 3,983 | 4,701 | 8,201 | 11,701 |
| Net Fixed Assets | 16,366 | 17,566 | 18,078 | 18,351 |
| Capital Work-in-Progress | 1,785 | 1,068 | 1,068 | 1,068 |
| Goodwill | 2,790 | 2,876 | 2,876 | 2,876 |
| Total Assets | 34,854 | 40,813 | 46,587 | 53,570 |
| Liabilities | | | | |
| Borrowings | 7,699 | 6,474 | 6,774 | 7,074 |
| Deferred Tax Liability | 483 | 499 | 499 | 499 |
| Minority Interest | 71 | 71 | 71 | 71 |
| Equity Share Capital | 971 | 971 | 971 | 971 |
| Face Value per share (Rs) | 10 | 10 | 10 | 10 |
| Reserves & Surplus* | 25,630 | 32,797 | 38,272 | 44,955 |
| Less: Misc. Exp. n.w.o. | | | | |
| Net Worth | 26,601 | 33,769 | 39,243 | 45,927 |
| Total Liabilities | 34,854 | 40,813 | 46,587 | 53,570 |

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|--|--------------|--------------|---------------|---------------|
| Operating Cashflow | 8,663 | 9,365 | 11,009 | 12,698 |
| Working Capital Changes | 332 | (2,475) | (1,839) | (1,748) |
| Capital Commitments | (7,333) | (2,594) | (2,800) | (2,800) |
| Free Cashflow | 1,662 | 4,296 | 6,370 | 8,150 |
| Cash flow from Investing Activities | | | | |
| Issue of Share Capital | - | - | - | - |
| Inc (Dec) in Borrowings | 2,593 | (1,226) | 300 | 300 |
| Dividend paid | (2,575) | (2,719) | (2,913) | (3,155) |
| Change in Deferred Tax Liability | | | | |
| Chg. in Cash & Bank balances | (389) | 17 | - | - |
| | (186) | 2,197 | (76) | 1,461 |

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| EPS | 6.8 | 7.4 | 8.9 | 10.4 |
| Cash EPS | 8.8 | 9.6 | 11.3 | 13.1 |
| Dividend per share (DPS) | 2.2 | 2.8 | 3.0 | 3.3 |
| Book Value per share (BV) | 27.4 | 34.8 | 40.4 | 47.3 |
| Growth (%) | | | | |
| Net Sales | 5.0 | 7.1 | 20.3 | 14.5 |
| EBITDA | 20.4 | 12.0 | 15.8 | 14.5 |
| PAT | 32.1 | 9.4 | 20.4 | 16.8 |
| Cash EPS | 34.5 | 9.5 | 17.6 | 15.3 |
| Valuation Ratios (x) | | | | |
| P/E | 122.3 | 111.8 | 92.9 | 79.6 |
| P/CEPS | 94.1 | 85.9 | 73.1 | 63.4 |
| P/BV | 30.3 | 23.8 | 20.5 | 17.5 |
| EV / EBITDA | 76.4 | 67.9 | 58.7 | 51.2 |
| EV / Sales | 12.7 | 11.8 | 9.8 | 8.6 |
| Operating Ratios | | | | |
| Raw Material / Sales (%) | 58.5 | 56.7 | 57.4 | 57.4 |
| Employee cost / Sales (%) | 7.1 | 7.1 | 7.1 | 7.1 |
| SG&A / Sales (%) | 17.7 | 18.7 | 18.7 | 18.7 |
| Other Income / PBT (%) | 7.7 | 5.2 | 5.6 | 6.3 |
| Effective Tax Rate (%) | 25.5 | 26.3 | 25.2 | 25.2 |
| Working Capital (days) | 43.7 | 53.9 | 52.9 | 52.9 |
| Inventory Turnover (days) | 72.3 | 85.3 | 85.3 | 85.3 |
| Receivables (days) | 40.4 | 53.8 | 53.8 | 53.8 |
| Payables (days) | 103.0 | 145.0 | 145.0 | 145.0 |
| Net D/E Ratio (x) | 0.3 | 0.2 | 0.2 | 0.2 |
| Profitability Ratios (%) | | | | |
| Net Income Margins | 10.3 | 10.6 | 10.6 | 10.8 |
| RoACE | 21.3 | 20.0 | 20.7 | 21.0 |
| RoAE | 25.9 | 24.0 | 23.9 | 23.9 |
| Dividend Payout | 32.1 | 37.5 | 33.4 | 31.0 |
| Dividend Yield | 0.3 | 0.3 | 0.4 | 0.4 |
| EBITDA Margins | 16.7 | 17.4 | 16.8 | 16.8 |

Source: Company data, I-Sec research

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ANALYST CERTIFICATION

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