

Q1FY22 result review
and earnings revisionConsumer Staples &
Discretionary

Target price: Rs850

Earnings revision

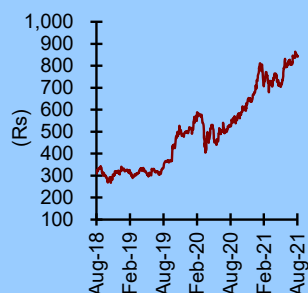
(%)	FY22E	FY23E
Revenue	↑ 2.4	↑ 2.4
EBITDA	↑ 1.5	↑ 1.5
EPS	↑ 1.8	↑ 1.7

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



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Berger Paints

HOLD
MaintainedLikely 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
Reuters/Bloomberg	BRGR.BO/BRGR IN
Shares Outstanding (mn)	971.3
52-week Range (Rs)	865/524
Free Float (%)	25.0
FII (%)	11.4
Daily Volume (US\$'000)	12,256
Absolute Return 3m (%)	15.5
Absolute Return 12m (%)	56.6
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

Year to March (cons)	FY20	FY21P	FY22E	FY23E
Net Revenue (Rs mn)	63,658	68,176	81,991	93,889
Net Profit (Rs mn)	6,388	7,323	8,665	10,116
Dil. EPS (Rs)	6.8	7.4	8.9	10.4
% Chg YoY	32.1	9.4	20.4	16.8
P/E (x)	122.3	111.8	92.9	79.6
CEPS (Rs)	8.8	9.6	11.3	13.1
EV/EBITDA (x)	76.4	67.9	58.7	51.2
Dividend Yield (%)	0.3	0.3	0.4	0.4
RoCE (%)	21.3	20.0	20.7	21.0
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>	<i>13.3%</i>	<i>9.9%</i>	<i>337 bps</i>	<i>16.6%</i>	<i>-330 bps</i>
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
<i>Extraordinary</i>	<i>(105)</i>	<i>(34)</i>		<i>30</i>	
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

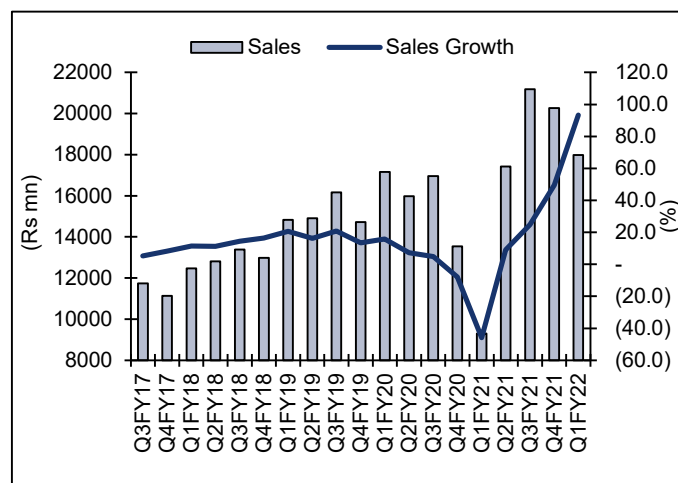
Table 2: Q1FY22 financial performance (standalone)*(Rs mn, year ending March 31)*

	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>	<i>13.6%</i>	<i>13.7%</i>	<i>-10 bps</i>	<i>16.8%</i>	<i>-321 bps</i>
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

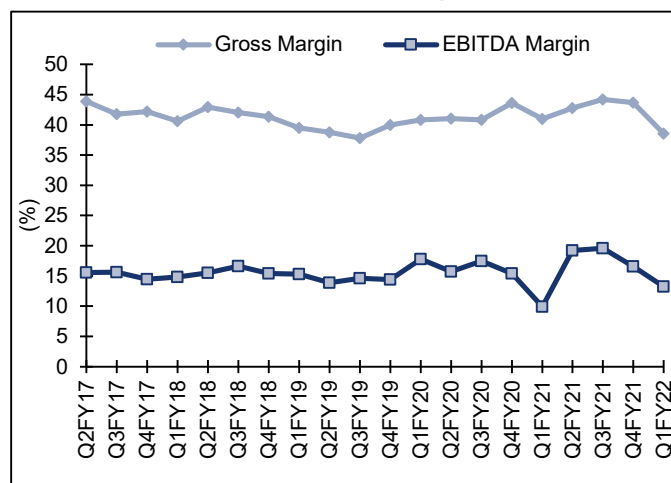
Quarterly operational highlights (Consolidated)

Chart 1: Revenues and Growth rates



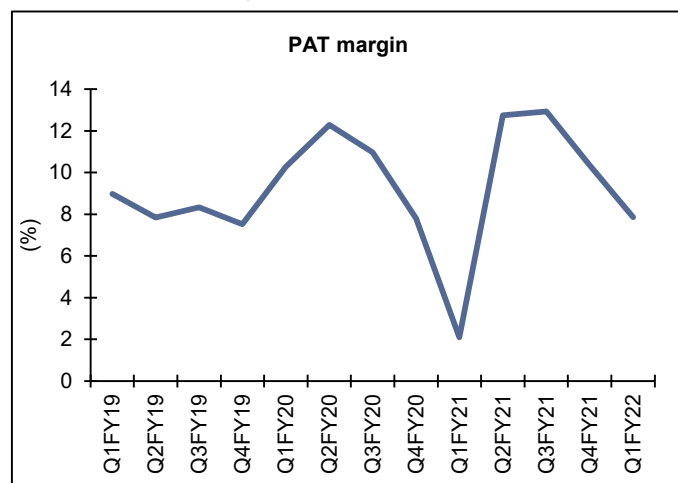
Source: Company data, I-Sec research

Chart 2: Gross and EBITDA margins



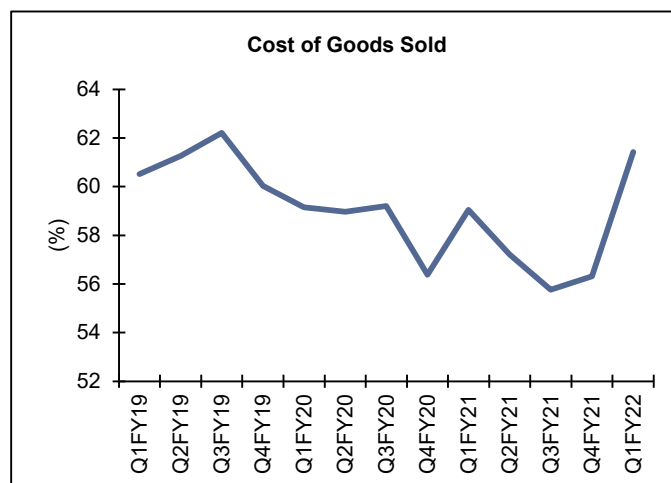
Source: Company data, I-Sec research

Chart 3: PAT margin



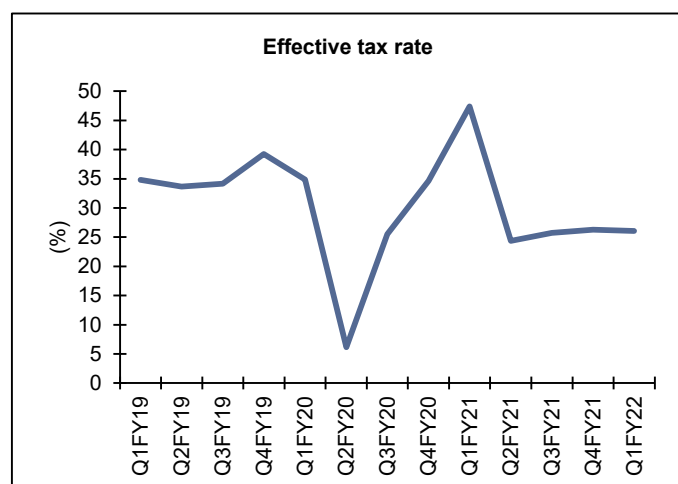
Source: Company data, I-Sec research

Chart 4: COGS as % of Net sales



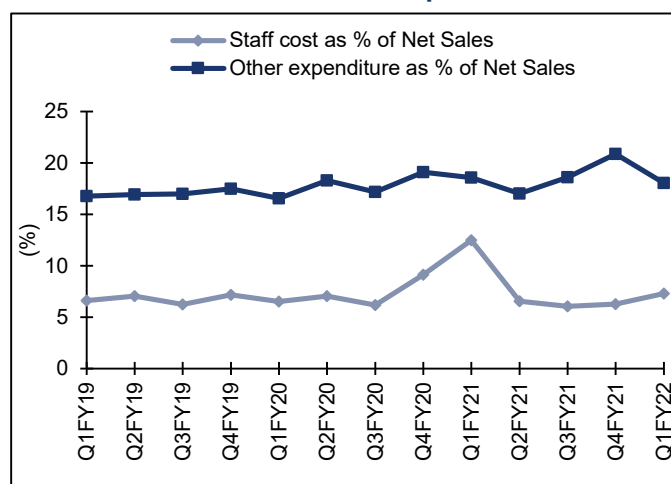
Source: Company data, I-Sec research

Chart 5: Effective tax rate



Source: Company data, I-Sec research

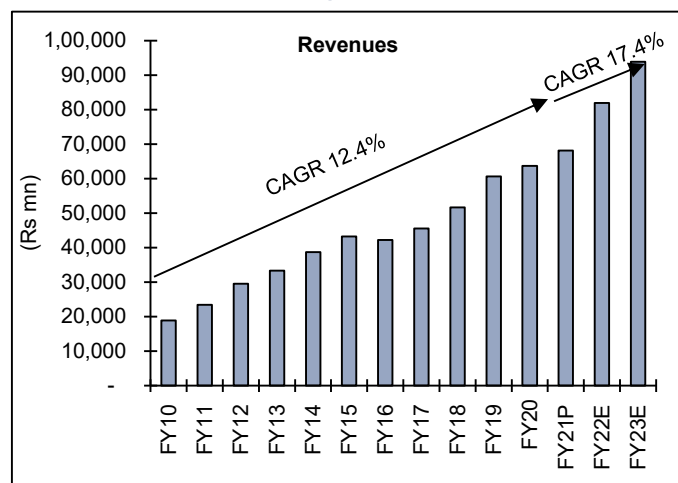
Chart 6: Staff cost and other expenditure



Source: Company data, I-Sec research

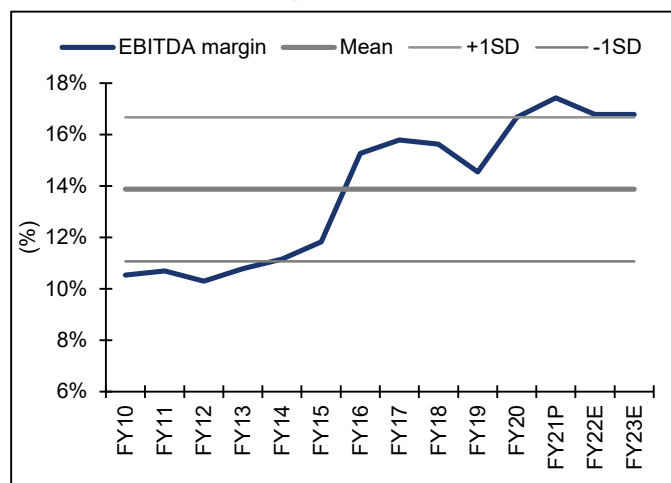
Operational highlights - Annual (Consolidated)

Chart 7: Revenues and growth rates



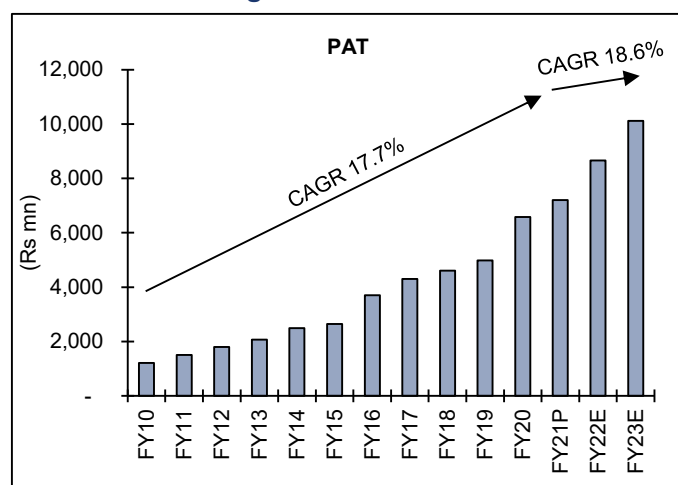
Source: Company data, I-Sec research

Chart 8: EBITDA margin



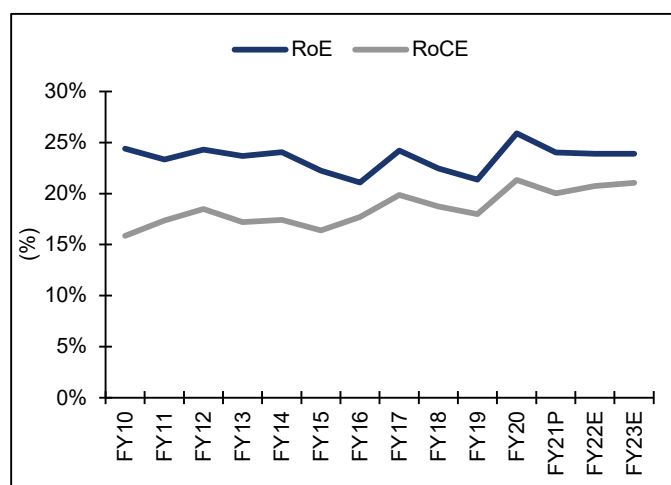
Source: Company data, I-Sec research

Chart 9: PAT and growth rates



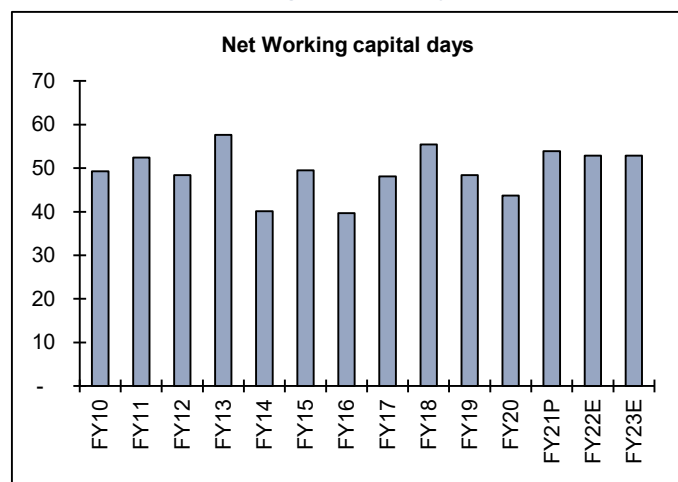
Source: Company data, I-Sec research

Chart 10: RoE & RoCE



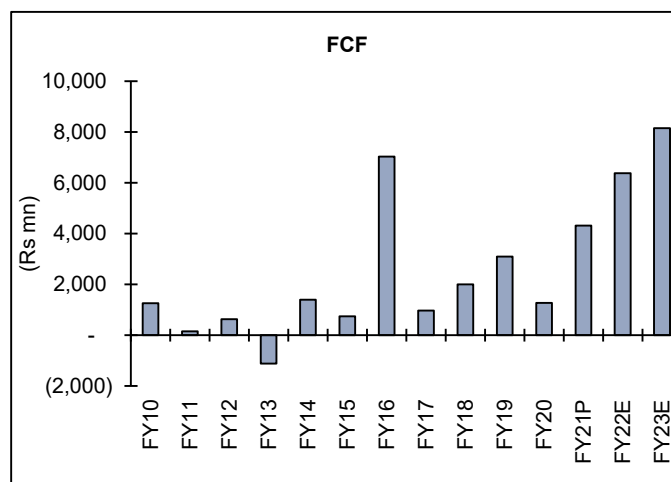
Source: Company data, I-Sec research

Chart 11: Net working capital days



Source: Company data, I-Sec research

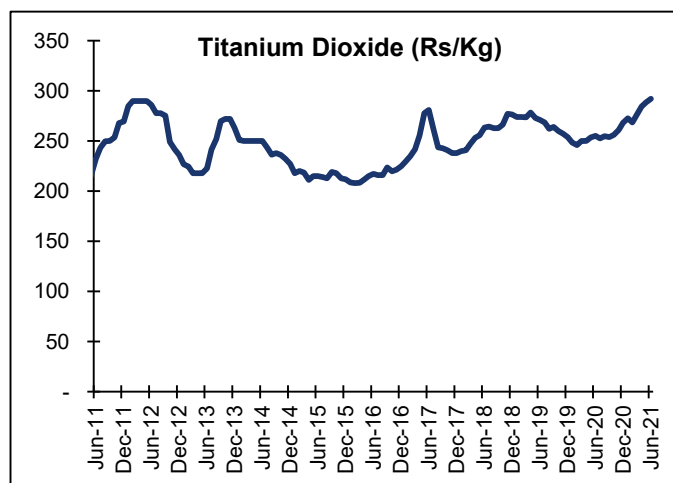
Chart 12: Free cash-flow



Source: Company data, I-Sec research

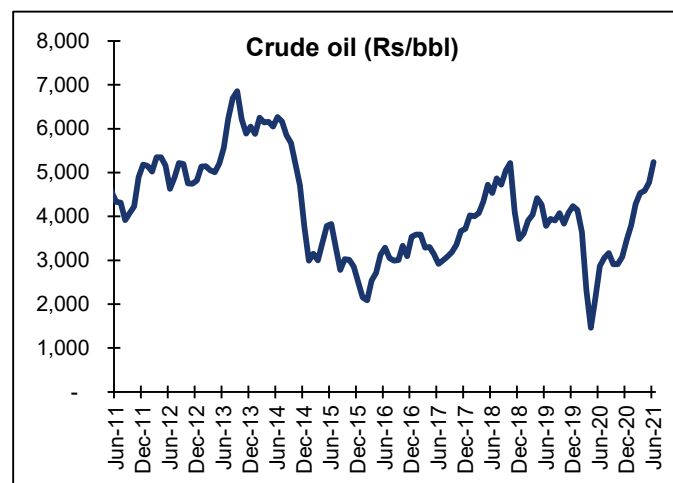
Key raw material prices

Chart 13: Titanium di-oxide



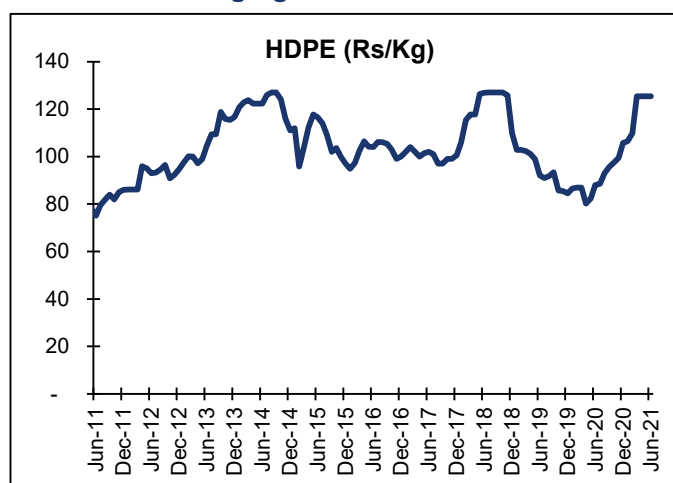
Source: Company data, I-Sec research

Chart 14: Crude oil



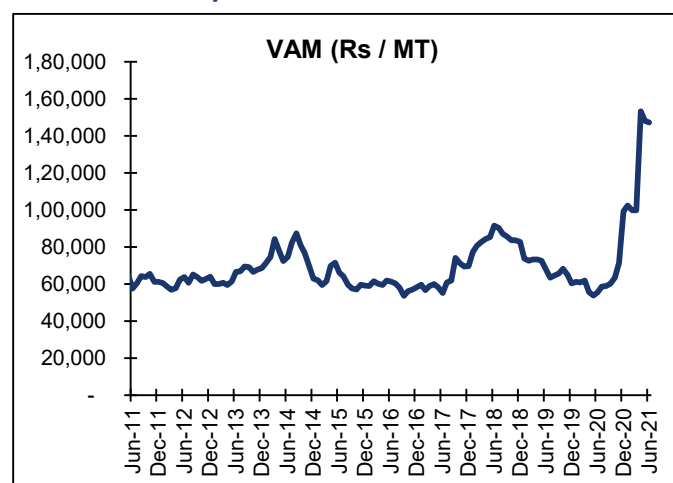
Source: Company data, I-Sec research

Chart 15: Packaging material - HPDE



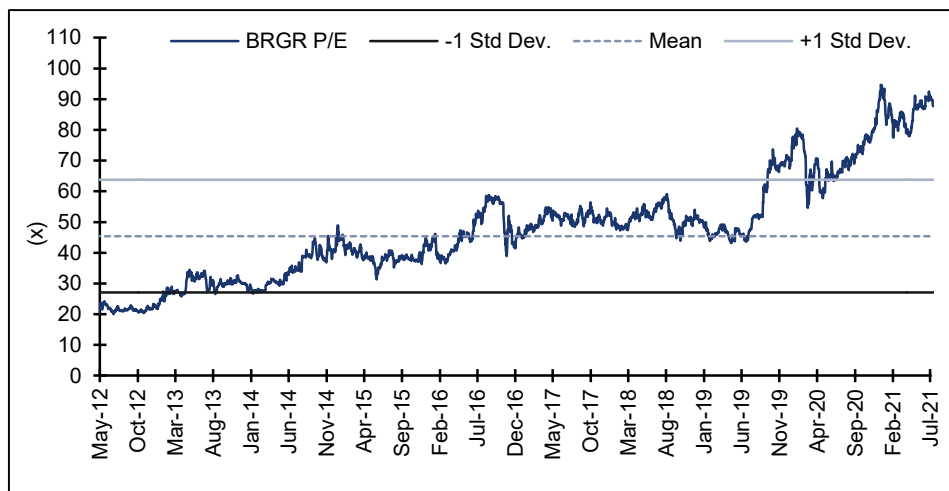
Source: Company data, I-Sec research

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	682	(805)	(3,500)	(3,500)
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	(389)	17	-	-
Chg. in Cash & Bank balances	(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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