

# Berger Paints

Refer to important disclosures at the end of this report

## Margin recovery priced in

- Berger Paints reported 21% revenue growth in Q3FY19, ahead of our expectations by 5%, supported by another quarter of strong volume growth in domestic Decorative paints. Management indicated a continuation in demand momentum in Decorative and Industrial segments.
- Margins were below expectations due to the consumption of high-cost inventory, adverse currency movements, and delayed price hikes in Industrial paints. These factors resulted in lower EBITDA and PAT growth of 3-6%, which came in 5-9% below our estimates.
- Management indicates that this quarter had peak input cost inflation, but margins are expected to improve in 4Q on a softening in crude prices and a stable currency. However, further price hikes are required in industrial paints to fully mitigate input cost inflation.
- Valuation, at 47x FY20E EPS, already factor in strong growth momentum and margin recovery, and offer limited upsides. We reiterate our Hold rating, with a revised target price of Rs320, now valuing it at 42x Dec'20E EPS.

- **Revenue ahead of our expectation on strong volume growth:** Berger Paints' domestic revenue grew 21%, driven by strong high teen volume growth in decorative paints. Mass end-products (distemper and putty) recorded higher growth due to market share gains from unorganized players. Growth in Industrial, Automotive, and Protective segments was also decent in the quarter. Management is optimistic on demand improvement after GST rate cuts and expects growth momentum to sustain in Decorative and Industrial segments.
- **High-cost inventory impacts margin; expects sequential improvement:** The consumption of high-cost inventory, adverse currency movements, and delayed price hikes in the industrial segment led to a 425bps contraction in gross margin to 37.8% — the lowest in the last 26 quarters. However, lower overheads due to increase in operating leverage restricted EBITDA margin contraction to 200bps. Management indicated that further price hikes are required in the Industrial segment to mitigate input cost inflation. However, the softening in crude prices and the appreciation of the INR along with the full benefit of Q3 price hikes should improve margins sequentially.
- **We await a better entry point; maintain Hold:** We expect Berger's stronger volume growth momentum to continue in Decorative paints, benefiting from GST rate cuts and market share gains from unorganized players. We expect 12% volume CAGR and sales/earnings CAGR of 15%/22% over FY20-21E. At the current valuation of 47x FY20E EPS, the stock offers limited near-term upside, in our view. We maintain our Hold rating, with a revised target price of Rs320, valuing it at 42x Dec'20E EPS.

### Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	45,523	51,657	60,690	69,923	80,567
EBITDA	7,186	8,070	8,937	11,009	13,232
EBITDA Margin (%)	15.8	15.6	14.7	15.7	16.4
APAT	4,295	4,608	5,111	6,341	7,666
EPS (Rs)	4.4	4.7	5.3	6.5	7.9
EPS (% chg)	15.9	7.3	10.9	24.1	20.9
ROE (%)	24.9	22.6	22.0	24.1	25.5
P/E (x)	69.6	64.8	58.4	47.1	39.0
EV/EBITDA (x)	41.3	36.9	33.3	26.9	22.2
P/BV (x)	15.8	13.7	12.1	10.7	9.3

Source: Company, Emkay Research

<b>CMP</b> Rs 308 as of (February 5, 2019)	<b>Target Price</b> Rs 320 (▲) 12 months
<b>Rating</b> HOLD (■)	<b>Upside</b> 4.0 %

### Change in Estimates

EPS Chg FY19E/FY20E (%)	-/-
Target Price change (%)	6.7
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	5.3	6.5
Consensus	5.5	6.8
Mean Consensus TP (12M)	Rs 330	

### Stock Details

Bloomberg Code	BRGR IN
Face Value (Rs)	1
Shares outstanding (mn)	971
52 Week H/L	350 / 232
M Cap (Rs bn/USD bn)	299 / 4.17
Daily Avg Volume (nos.)	1,056,149
Daily Avg Turnover (US\$ mn)	4.7

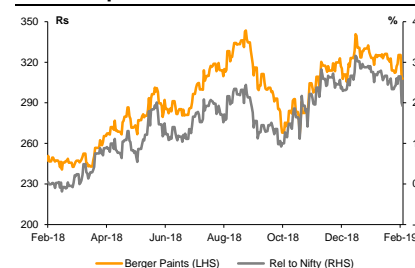
### Shareholding Pattern Dec '18

Promoters	75.0%
FIIIs	10.0%
DIIIs	4.3%
Public and Others	10.7%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(5)	2	(2)	27
<b>Rel. to Nifty</b>	(7)	(2)	2	24

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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**Exhibit 1: Actual vs. estimates**

Rs mn	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	16,167	15,455	15,625	4.6%	3.5%	Reports strong volume growth in domestic decorative paints
EBITDA	2,360	2,473	2,503	-4.6%	-5.7%	Consumption of high-cost inventory, INR depreciation and delayed price hikes in industrial segment impact margins
EBITDA Margin (%)	14.6%	16.0%	16.0%	-141	-142	
APAT	1,339	1,479	1,462	-9.5%	-8.5%	

Source: Company, Emkay Research

**Exhibit 2: Quarterly performance (consolidated)**

	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	Gr (%)
Revenue	13,386	14,901	16,167	20.8	8.5	38,675	45,898	18.7
Expenditure	11,160	12,833	13,807	23.7	7.6	32,606	39,199	20.2
Consumption of RM	7,758	9,128	10,057	29.6	10.2	22,483	28,159	25.2
as % of sales	58	61	62			58.1	61.4	
Employee Cost	871	1,049	1,006	15.5	-4.0	2,658	3,033	14.1
as % of sales	7	7	6			6.9	6.6	
Other expenditure	2,532	2,656	2,744	8.4	3.3	7,465	8,008	7.3
as % of sales	19	18	17			19.3	17.4	
EBITDA	2,226	2,068	2,360	6.0	14.1	6,068	6,698	10.4
Depreciation	312	336	355	13.9	5.6	922	1,032	11.9
EBIT	1,914	1,732	2,005	4.7	15.8	5,146	5,667	10.1
Other Income	101	120	151	50.4	25.9	337	436	29.4
Interest	78	79	109	40.8	38.7	182	227	24.7
PBT	1,937	1,773	2,047	5.7	15.4	5,301	5,876	10.8
Total Tax	657	597	699	6.4	17.1	1,835	2,010	9.6
Adjusted PAT	1,280	1,176	1,348	5.3	14.6	3,466	3,865	11.5
Profit/(loss) from JV's/Ass/MI	24	(4)	(10)	-	-	80	-5	-106.4
APAT after MI	1,304	1,173	1,339	2.7	14.1	3,546	3,860	8.9
Extra ordinary items	-	-	-	-	-	0	0	0
Reported PAT	1,304	1,173	1,339	2.7	14.1	3,546	3,860	8.9
Adjusted EPS	1.3	1.2	1.4	2.7	14.1	3.7	4.0	8.9

Margins (%)				(bps)	(bps)			(bps)
Gross Margin	42.0	38.7	37.8	-420	-90	41.9	38.6	-320
EBIDTA	16.6	13.9	14.6	-200	70	15.7	14.6	-110
EBIT	14.3	11.6	12.4	-190	80	13.3	12.3	-100
EBT	14.5	11.9	12.7	-180	80	13.7	12.8	-90
PAT	9.7	7.9	8.3	-150	40	9.2	8.4	-80
Effective Tax rate	33.9	33.6	34.1	20	50	34.6	34.2	-40

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>45,523</b>	<b>51,657</b>	<b>60,690</b>	<b>69,923</b>	<b>80,567</b>
<b>Expenditure</b>	<b>38,337</b>	<b>43,587</b>	<b>51,753</b>	<b>58,915</b>	<b>67,335</b>
<b>EBITDA</b>	<b>7,186</b>	<b>8,070</b>	<b>8,937</b>	<b>11,009</b>	<b>13,232</b>
Depreciation	1,081	1,242	1,475	1,725	1,984
<b>EBIT</b>	<b>6,105</b>	<b>6,828</b>	<b>7,462</b>	<b>9,283</b>	<b>11,248</b>
Other Income	545	459	592	621	652
Interest expenses	162	246	238	208	178
<b>PBT</b>	<b>6,488</b>	<b>7,041</b>	<b>7,815</b>	<b>9,696</b>	<b>11,722</b>
Tax	2,294	2,439	2,704	3,355	4,056
Extraordinary Items	442	0	0	0	0
Minority Int./Income from Assoc.	101	6	0	0	0
<b>Reported Net Income</b>	<b>4,737</b>	<b>4,608</b>	<b>5,111</b>	<b>6,341</b>	<b>7,666</b>
<b>Adjusted PAT</b>	<b>4,295</b>	<b>4,608</b>	<b>5,111</b>	<b>6,341</b>	<b>7,666</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	971	971	971	971	971
Reserves & surplus	18,045	20,974	23,744	27,159	31,313
<b>Net worth</b>	<b>19,016</b>	<b>21,945</b>	<b>24,715</b>	<b>28,130</b>	<b>32,284</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>4,062</b>	<b>4,222</b>	<b>3,722</b>	<b>3,222</b>	<b>2,722</b>
Net deferred tax liability	707	412	412	412	412
<b>Total Liabilities</b>	<b>23,785</b>	<b>26,579</b>	<b>28,848</b>	<b>31,763</b>	<b>35,417</b>
<b>Net block</b>	<b>11,360</b>	<b>12,672</b>	<b>13,996</b>	<b>15,271</b>	<b>16,287</b>
<b>Investment</b>	<b>4,721</b>	<b>3,331</b>	<b>3,331</b>	<b>3,331</b>	<b>3,331</b>
<b>Current Assets</b>	<b>17,444</b>	<b>21,898</b>	<b>24,593</b>	<b>28,192</b>	<b>33,059</b>
Cash & bank balance	1,025	2,050	1,626	2,305	3,894
Other Current Assets	1,033	2,563	2,993	3,257	3,532
<b>Current liabilities &amp; Provision</b>	<b>10,464</b>	<b>12,383</b>	<b>14,133</b>	<b>16,092</b>	<b>18,321</b>
<b>Net current assets</b>	<b>6,981</b>	<b>9,515</b>	<b>10,460</b>	<b>12,100</b>	<b>14,738</b>
Misc. exp	101	89	89	89	89
<b>Total Assets</b>	<b>23,785</b>	<b>26,579</b>	<b>28,848</b>	<b>31,763</b>	<b>35,417</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>5,943</b>	<b>6,582</b>	<b>7,223</b>	<b>9,075</b>	<b>11,069</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,292)	(1,804)	(1,369)	(961)	(1,050)
<b>Operating Cashflow</b>	<b>4,473</b>	<b>5,076</b>	<b>6,047</b>	<b>7,935</b>	<b>9,431</b>
Capital expenditure	(2,922)	(2,904)	(2,800)	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>1,550</b>	<b>2,173</b>	<b>3,247</b>	<b>4,935</b>	<b>6,431</b>
Investments	(1,246)	1,390	0	0	0
Other Investing Cash Flow	(341)	(1,231)	(1,183)	(1,243)	(1,305)
<b>Investing Cashflow</b>	<b>(3,964)</b>	<b>(2,286)</b>	<b>(3,392)</b>	<b>(3,621)</b>	<b>(3,652)</b>
Equity Capital Raised	278	0	0	0	0
Loans Taken / (Repaid)	967	160	(500)	(500)	(500)
Dividend paid (incl tax)	(2,045)	(2,107)	(2,341)	(2,927)	(3,512)
Other Financing Cash Flow	426	428	0	0	0
<b>Financing Cashflow</b>	<b>(537)</b>	<b>(1,765)</b>	<b>(3,080)</b>	<b>(3,635)</b>	<b>(4,190)</b>
<b>Net chg in cash</b>	<b>(29)</b>	<b>1,025</b>	<b>(424)</b>	<b>679</b>	<b>1,589</b>
Opening cash position	1,053	1,025	2,050	1,626	2,305
<b>Closing cash position</b>	<b>1,025</b>	<b>2,050</b>	<b>1,626</b>	<b>2,305</b>	<b>3,894</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
EBITDA Margin	15.8	15.6	14.7	15.7	16.4
EBIT Margin	13.4	13.2	12.3	13.3	14.0
Effective Tax Rate	35.4	34.6	34.6	34.6	34.6
Net Margin	9.2	8.9	8.4	9.1	9.5
ROCE	31.0	29.0	29.2	32.8	35.5
ROE	24.9	22.6	22.0	24.1	25.5
RoIC	38.7	36.5	34.7	38.8	43.1

<b>Per Share Data (Rs)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
EPS	4.4	4.7	5.3	6.5	7.9
CEPS	5.5	6.0	6.8	8.3	9.9
BVPS	19.5	22.5	25.4	28.9	33.2
DPS	1.8	1.8	2.0	2.5	3.0

<b>Valuations (x)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
PER	69.6	64.8	58.4	47.1	39.0
P/CEPS	51.7	47.5	42.2	34.4	28.8
P/BV	15.8	13.7	12.1	10.7	9.3
EV / Sales	6.5	5.8	4.9	4.2	3.7
EV / EBITDA	41.3	36.9	33.3	26.9	22.2
Dividend Yield (%)	0.6	0.6	0.7	0.8	1.0

<b>Gearing Ratio (x)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Net Debt/ Equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBIDTA	(0.2)	(0.1)	(0.1)	(0.2)	(0.3)
Working Cap Cycle (days)	47.8	52.7	53.1	51.1	49.1

<b>Growth (%)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Revenue	7.8	13.5	17.5	15.2	15.2
EBITDA	11.4	12.3	10.7	23.2	20.2
EBIT	11.8	11.8	9.3	24.4	21.2
PAT	27.8	(2.7)	10.9	24.1	20.9

<b>Quarterly (Rs mn)</b>	<b>Q3FY18</b>	<b>Q4FY18</b>	<b>Q1FY19</b>	<b>Q2FY19</b>	<b>Q3FY19</b>
Revenue	13,386	12,983	14,830	14,901	16,167
EBITDA	2,226	2,002	2,270	2,068	2,360
<b>EBITDA Margin (%)</b>	<b>16.6</b>	<b>15.4</b>	<b>15.3</b>	<b>13.9</b>	<b>14.6</b>
PAT	1,304	1,062	1,349	1,173	1,339
<b>EPS (Rs)</b>	<b>1.3</b>	<b>1.1</b>	<b>1.4</b>	<b>1.2</b>	<b>1.4</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Jun-18</b>	<b>Sep-18</b>	<b>Dec-18</b>
Promoters	75.0	75.0	75.0	75.0	75.0
FIs	10.7	10.7	10.2	10.1	10.0
DIs	3.6	3.6	4.2	4.3	4.3
Public and Others	10.8	10.8	10.7	10.6	10.7

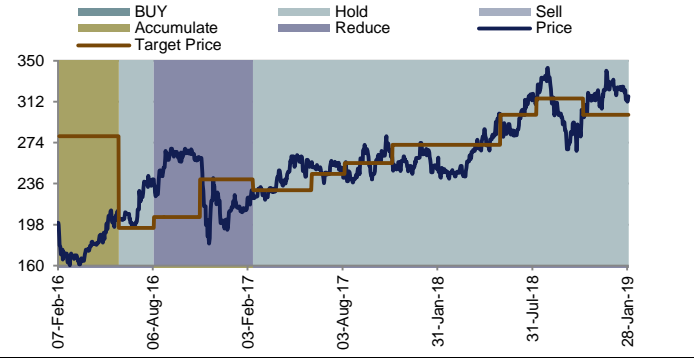
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Nov-18	301	300	12m	Hold	Ashit Desai
08-Aug-18	313	315	12m	Hold	Ashit Desai
31-May-18	298	300	12m	Hold	Ashit Desai
06-Nov-17	256	272	12m	Hold	Amit Purohit
07-Aug-17	249	255	12m	Hold	Amit Purohit
05-Jun-17	256	245	12m	Hold	Amit Purohit
13-Feb-17	222	230	12m	Hold	Amit Purohit
04-Nov-16	260	240	12m	Reduce	Amit Purohit
08-Aug-16	235	205	12m	Reduce	Amit Purohit
15-Jul-16	223	195	12m	Hold	Amit Purohit
02-Jun-16	204	195	12m	Hold	Prashant Kutty
09-Feb-16	186	280	12m	Accumulate	Prashant Kutty

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 06 Feb 2019 01:29:48 (SGT)  
Dissemination Date: 06 Feb 2019 01:30:48 (SGT)

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