

India

HOLD (no change)

Consensus ratings*: Buy 3 Hold 5 Sell 16

Current price: Rs485
 Target price: ▼ Rs500
 Previous target: Rs600
 Up/downside: 3.1%
 InCred Research / Consensus: -6.4%

Reuters: BRGR.NS
 Bloomberg: BRGR IN
 Market cap: US\$6,773m
 Rs565,528m

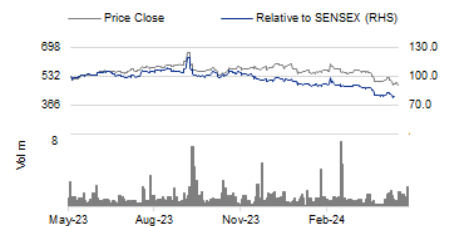
Average daily turnover: US\$7.5m
 Rs628.6m

Current shares o/s: 1,165.8m
 Free float: 25.0%

*Source: Bloomberg

Key changes in this note

- Lower target price to Rs500 from Rs600.
- Lower FY25F/26F EPS by 6.6%/6.9%.

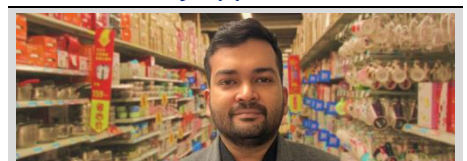


Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-------|--------|--------|
| Absolute (%) | (8.7) | (13.8) | (4.9) |
| Relative (%) | (8.7) | (14.5) | (19.3) |

| Major shareholders | % held |
|-----------------------------|--------|
| Promoter and Promoter Group | 75.0 |
| LIC | 3.7 |
| BlackRock | 1.1 |

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Berger Paints India Limited

Weak mix and price cuts drag value growth

- Value growth hit in 4Q on account of 5% price cut, destocking in the luxury segment in anticipation of price cuts and a higher mix of high-volume products.
- Management guidance on the EBITDA margin is in the 16-17% range for FY25F, lower than the guidance given for FY24 (17-18%).
- Suppressed value growth likely till Dec 2024, after which some uptick may be seen. Maintain HOLD rating with a lower target price of Rs500 (Rs600 earlier).

Volume-value gap grew due to price cuts, destocking and weak mix

Berger Paints India's (BRGR) 4QFY24 standalone sales growth stood at 2.7% yoy, with volume growth at 13.9%. Value growth was impacted due to 1) the impact of price reductions to the tune of c.5% (c.1% in Nov 2023 and 4% in Jan 2024), 2) no price cuts in the luxury segment while dealers destocked and did not replenish inventory as they expected price cuts, which led to a shift to the economy segment, and 3) higher growth in high-volume products like putty. The waterproofing/construction chemicals segment continued to post strong growth. Projects business is now at 8% of standalone sales and is growing slightly faster than the retail business. BRGR added 7,300 retail touchpoints (and 7,100 tinting machines) to reach 55,000 outlets in FY24 and targets adding 8,000 tinting machines in FY25F. Its manufacturing capacity stood at 1.27mtpa, with work underway at its Panagarh facility (greenfield) in West Bengal.

Subsidiaries post better growth with improved profitability

BRGR's overseas subsidiaries' sales were driven by Bolix SA and STP, which posted strong growth. SBL Specialty Coatings posted healthy growth aided by an uptick in demand from the fan industry, with profitability improving in double digits. Berger Nippon Automotive Coatings (JV) saw another quarter of double-digit growth led by the passenger vehicle and sports utility vehicle or SUV segments. Nepal operations continued to decline, hit by the slowdown in the construction sector, liquidity constraints and are likely to remain marginally negative in 1QFY25F. Berger Becker (joint venture) posted double-digit growth.

Margins expected to remain under pressure

BRGR's consolidated gross margin expanded by 80bp yoy to 40.7%. Prices were cut by 4% in Jan 2024. Consolidated EBITDA declined by 4.8% yoy to Rs3.5bn while the EBITDA margin contracted 120bp yoy to 13.9%. Given the benign raw material prices, management expects the consolidated EBITDA margin to be in the range of 16-17% in FY25F.

Maintain HOLD rating with a lower target price of Rs500

Management guidance entails lower value growth until Dec 2024, after which some uptick is likely. BRGR trades at 46x/43x FY25F/26F EPS, respectively, with limited room for an upside. We retain HOLD rating on it with a lower target price of Rs500 (Rs600 earlier) based on 45x Mar FY26F EPS, as we roll forward our valuation. Key upside/downside risks: Higher-than-estimated/lower-than-estimated sales/EBITDA growth, respectively.

Financial Summary

| | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 87,618 | 105,678 | 111,989 | 122,640 | 133,057 |
| Operating EBITDA (Rsm) | 13,311 | 14,872 | 18,613 | 19,732 | 21,004 |
| Net Profit (Rsm) | 8,322 | 8,594 | 11,678 | 12,223 | 13,034 |
| Core EPS (Rs) | 7.1 | 7.4 | 10.0 | 10.5 | 11.2 |
| Core EPS Growth | 15.6% | 3.3% | 35.9% | 4.7% | 6.6% |
| FD Core P/E (x) | 67.95 | 65.80 | 48.43 | 46.27 | 43.39 |
| DPS (Rs) | 3.1 | 2.9 | 3.5 | 3.7 | 4.0 |
| Dividend Yield | 0.62% | 0.69% | 0.84% | 0.89% | 0.95% |
| EV/EBITDA (x) | 42.95 | 38.63 | 30.51 | 28.67 | 26.78 |
| P/FCFE (x) | 407.32 | 235.81 | 124.05 | 81.33 | 67.05 |
| Net Gearing | 15.5% | 19.7% | 4.0% | 0.2% | (4.4%) |
| P/BV (x) | 14.33 | 12.53 | 10.51 | 9.24 | 8.19 |
| ROE | 22.7% | 20.3% | 23.6% | 21.3% | 20.0% |
| % Change In Core EPS Estimates | | | | (6.59%) | (6.90%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak mix and price cuts drag value growth

Highlights from the earnings call

Decorative paints business

- **4QFY24:** Volume growth stood at 13.9%. Value growth at 2.7% was hit on account of 1) the impact of price reductions by 5% (c.1% in Nov 2023 and 4% in Jan 2024), 2) no reductions in the luxury segment while dealers destocked and did not replenish expecting price cuts, which led to a shift in the economy category, and 3) higher growth in high-volume (low value) products like putty. One-time subsidy in the base also suppressed growth further.
- **FY24:** Volume growth in FY24 stood at 11.6% led by the economy segment. Construction chemicals and waterproofing businesses posted strong growth. Berger gained some market share in India this year. Turned net cash positive in Dec 2023. Industrial businesses continued their trajectory, with improvement in profitability.
- Distribution expansion continued, adding 7,300 retail touchpoints (to 55,000 in total) and added 7,100 tinting machines to 45,000 tinting machines in total (targeting 8,000 in FY25F). New dealers take c.6-12 months to reach the average volume in that respective region.
- Projects business is now 8% of standalone business, growing slightly ahead of the retail business in value growth terms.
- Influencer outreach efforts improved.
- **Digital initiatives:** 1) Cloud-based portal for customer engagement. 2) App designed to find the right colour schemes for new/repainting work. 3) Tracking dispatches from the factory to last-mile delivery points. 4) Warehouse management system implemented at all warehouses. 5) Express painting and waterproofing services.
- Notable NPDs in FY24: Roof & Seal, PU Elastoseal, Easy Clean Silky Touch Paint, and Weathercoat Long Life 15.
- **Manufacturing capacity:** Capacity in FY24 stood at 1.27mtpa. Brownfield expansions were carried out at some units. Work is underway at the Panagarh facility in West Bengal (greenfield).
- Land acquisition completed at Khurdah in Odisha. Work will begin in 2HFY25F.

Industrial business

- Protective coatings business continued to maintain its growth trajectory, with substantial improvement in profitability.
- Automotive business performance improved on the back of some uptick in two-wheeler demand.
- Powder coatings showed an uptick yoy with significant improvement in profitability.
- Projects in FY24: ITPO - Bharat Mandapam, Mumbai Coastal Bridge, Vande Bharat, HRRL Rajasthan Refinery, Reliance New Energy PV Solar.

Subsidiaries

- Bolix SA had a quarter of double-digit growth in topline, driven by UK operations, and profitability helped by a sharp expansion in operating margin.
- BJN Nepal had another quarter of a decline in topline and profitability impacted by the macroeconomic and liquidity problems. This is expected to continue in 1QFY25F.
- STP had another quarter of strong double-digit topline growth aided by higher sales of the admixture segment along with healthy profitability growth led by operational leverage. Healthy growth expected in 1QFY25F.

- SBL Specialty Coatings posted decent topline growth aided by a new line of business and double-digit profitability growth and margin expansion led by price hikes.
- Berger Nippon (JV) continued its double-digit topline and profitability growth led by strong performance of the passenger car and sports utility vehicle or SUV segments. Expects strong growth to continue in 1QFY25F.
- Berger Becker (JV) had a turnaround with healthy double-digit topline growth and strong profitability growth during the quarter. It also received Rs460m towards insurance claim because of a loss due to fire.

Input costs and margins

- Incremental costs for the Sandhilia plant were also visible during the quarter, which impacted profitability. Capacity utilization should reach 55% in a few quarters.
- Advertising expenditure was up 40% yoy in FY24.
- EBITDA margin expected to remain in the 16-17% range in FY25F.
- Rebating intensity remained benign. No impact due to a new entrant. Management stated that it won't react to any move by the new competitor in terms of rebating in the near term.

Outlook

- Decorative paints business is expected to maintain double-digit volume growth in 1QFY25F and with a slightly lower value growth until Dec 2024, after which value growth is expected to pick up.
- Expectations of a normal monsoon is expected to propel rural demand. Demand is likely to pick up post general elections in India, from 2QFY25F.
- Industrial business is expected to do well and maintain strong profitability.
- The new entrant has not yet started to impact growth in any manner. Management doesn't expect much impact (maybe c.50-70bp) on the market share as most of the large dealers have not expressed interest in the new entrant.

Figure 1: Quarterly summary - consolidated

| Y/E Mar (Rs. m) | 4QFY23 | 3QFY24 | 4QFY24 | YoY (%) | QoQ (%) | FY23 | FY24 | YoY (%) |
|--------------------------------|---------------|---------------|---------------|-------------|-------------|-----------------|-----------------|-------------|
| Revenue | 24,436 | 28,818 | 25,203 | 3.1 | -12.5 | 1,05,678 | 1,11,989 | 6.0 |
| Expenditure | 20,749 | 24,018 | 21,694 | 4.6 | -9.7 | 90,806 | 93,376 | 2.8 |
| Consumption of RM | 14,702 | 16,981 | 14,954 | 1.7 | -11.9 | 67,305 | 66,460 | -1.3 |
| as % of sales | 60.2 | 58.9 | 59.3 | | | 63.7 | 59.3 | |
| Employee costs | 1,547 | 1,815 | 1,744 | 12.7 | -3.9 | 6,092 | 7,130 | 17.0 |
| as % of sales | 6.3 | 6.3 | 6.9 | | | 5.8 | 6.4 | |
| Other expenditure | 4,500 | 5,222 | 4,996 | 11.0 | -4.3 | 17,409 | 19,786 | 13.7 |
| as % of sales | 18.4 | 18.1 | 19.8 | | | 16.5 | 17.7 | |
| EBITDA | 3,688 | 4,800 | 3,509 | -4.8 | -26.9 | 14,872 | 18,613 | 25.2 |
| Depreciation | 744 | 829 | 869 | 16.8 | 4.8 | 2,640 | 3,309 | 25.3 |
| EBIT | 2,944 | 3,971 | 2,640 | -10.3 | -33.5 | 12,232 | 15,304 | 25.1 |
| Other income | 151 | 189 | 159 | 5.4 | -16.2 | 516 | 637 | 23.5 |
| Interest | 293 | 196 | 178 | -39.1 | -9.1 | 992 | 783 | -21.1 |
| PBT | 2,801 | 3,965 | 2,620 | -6.5 | -33.9 | 11,755 | 15,159 | 29.0 |
| Total tax | 719 | 977 | 714 | -0.7 | -26.9 | 3,019 | 3,871 | 28.2 |
| Adjusted PAT | 2,082 | 2,988 | 1,906 | -8.5 | -36.2 | 8,736 | 11,288 | 29.2 |
| (Profit)/loss from JVs/Ass./MI | 225 | -9 | -315 | - | - | 142 | -390 | - |
| APAT after MI | 1,857 | 2,997 | 2,221 | 19.6 | -25.9 | 8,594 | 11,678 | 35.9 |
| Extraordinary items | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Reported PAT | 1,857 | 2,997 | 2,221 | 19.6 | -25.9 | 8,594 | 11,678 | 35.9 |
| Adjusted EPS | 1.6 | 2.6 | 1.9 | 19.6 | -25.9 | 7.4 | 10.0 | 35.9 |
| Margins (%) | 4QFY23 | 3QFY24 | 4QFY24 | (bp) | (bp) | FY23 | FY24 | (bp) |
| Gross margin | 39.8 | 41.1 | 40.7 | 80 | -40 | 36.3 | 40.7 | 430 |
| EBITDA | 15.1 | 16.7 | 13.9 | -120 | -270 | 14.1 | 16.6 | 250 |
| EBIT | 12.0 | 13.8 | 10.5 | -160 | -330 | 11.6 | 13.7 | 210 |
| EBT | 11.5 | 13.8 | 10.4 | -110 | -340 | 11.1 | 13.5 | 240 |
| PAT | 7.6 | 10.4 | 8.8 | 120 | -160 | 8.1 | 10.4 | 230 |
| Effective tax rate | 25.7 | 24.6 | 27.3 | 160 | 260 | 25.7 | 25.5 | -20 |

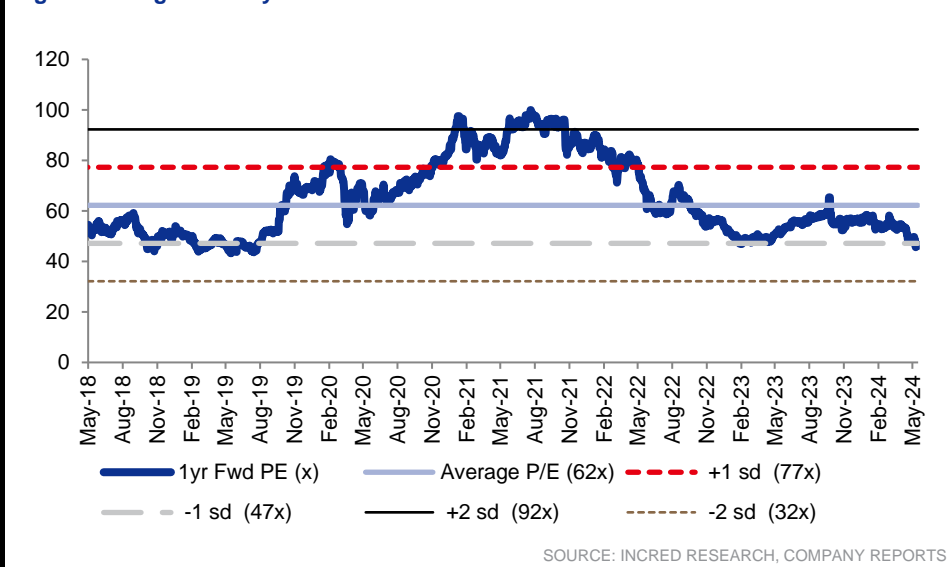
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

| Y/E Mar (Rs. m) | FY25F | | | FY26F | | |
|-------------------|----------|----------|----------|----------|----------|----------|
| | Earlier | Revised | % Change | Earlier | Revised | % Change |
| Net Sales | 1,25,721 | 1,22,640 | -2.5 | 1,36,378 | 1,33,057 | -2.4 |
| EBITDA | 21,047 | 19,732 | -6.2 | 22,398 | 21,004 | -6.2 |
| EBITDA Margin (%) | 16.7 | 16.1 | -70 bp | 16.4 | 15.8 | -60 bp |
| APAT | 13,084 | 12,223 | -6.6 | 13,999 | 13,034 | -6.9 |
| EPS | 11.2 | 10.5 | -6.6 | 12.0 | 11.2 | -6.9 |

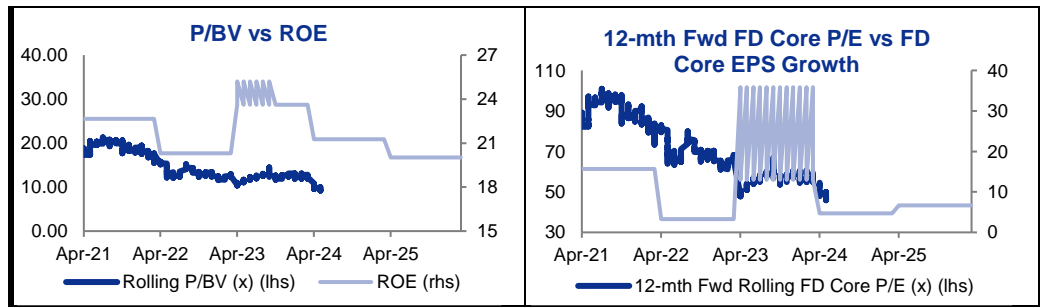
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Berger's one-year forward P/E trades at -1 SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|---|---------|---------|---------|---------|---------|
| Total Net Revenues | 87,618 | 105,678 | 111,989 | 122,640 | 133,057 |
| Gross Profit | 33,327 | 38,373 | 45,529 | 49,806 | 53,108 |
| Operating EBITDA | 13,311 | 14,872 | 18,613 | 19,732 | 21,004 |
| Depreciation And Amortisation | (2,265) | (2,640) | (3,309) | (3,593) | (3,799) |
| Operating EBIT | 11,046 | 12,232 | 15,304 | 16,138 | 17,205 |
| Financial Income/(Expense) | 139 | (477) | (146) | 289 | 305 |
| Pretax Income/(Loss) from Assoc. | 33 | (132) | 410 | (90) | (90) |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 11,217 | 11,623 | 15,569 | 16,338 | 17,420 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 11,217 | 11,623 | 15,569 | 16,338 | 17,420 |
| Taxation | (2,893) | (3,019) | (3,870) | (4,115) | (4,386) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 8,324 | 8,604 | 11,699 | 12,223 | 13,034 |
| Minority Interests | (1) | (10) | (21) | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 8,322 | 8,594 | 11,678 | 12,223 | 13,034 |
| Recurring Net Profit | 8,322 | 8,594 | 11,678 | 12,223 | 13,034 |
| Fully Diluted Recurring Net Profit | 8,322 | 8,594 | 11,678 | 12,223 | 13,034 |

Cash Flow

| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|----------------------------------|---------|---------|---------|---------|---------|
| EBITDA | 13,311 | 14,872 | 18,613 | 19,732 | 21,004 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (5,378) | (2,172) | 793 | (6,453) | (5,989) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | (507) | (992) | (783) | (633) | (652) |
| Tax Paid | (2,893) | (3,019) | (3,870) | (4,115) | (4,386) |
| Cashflow From Operations | 4,532 | 8,688 | 14,754 | 8,532 | 9,977 |
| Capex | (8,801) | (9,072) | (5,532) | (2,500) | (2,500) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 1,859 | 1,028 | (308) | 922 | 957 |
| Cash Flow From Investing | (6,941) | (8,044) | (5,840) | (1,578) | (1,543) |
| Debt Raised/(repaid) | 3,798 | 1,754 | (4,355) | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (3,524) | (3,892) | (4,769) | (5,019) | (5,350) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 754 | 881 | 2,518 | 104 | 104 |
| Cash Flow From Financing | 1,028 | (1,256) | (6,605) | (4,915) | (5,246) |
| Total Cash Generated | (1,381) | (613) | 2,309 | 2,038 | 3,188 |
| Free Cashflow To Equity | 1,388 | 2,398 | 4,559 | 6,953 | 8,434 |
| Free Cashflow To Firm | (1,902) | 1,636 | 9,696 | 7,586 | 9,086 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Total Cash And Equivalents | 4,002 | 2,977 | 5,366 | 7,404 | 10,593 |
| Total Debtors | 10,537 | 12,431 | 13,020 | 14,871 | 19,082 |
| Inventories | 23,158 | 23,191 | 21,797 | 27,962 | 30,325 |
| Total Other Current Assets | 5,018 | 5,302 | 4,277 | 4,277 | 4,277 |
| Total Current Assets | 42,715 | 43,901 | 44,460 | 54,515 | 64,276 |
| Fixed Assets | 25,169 | 31,601 | 33,824 | 32,731 | 31,432 |
| Total Investments | 1,471 | 1,302 | 1,917 | 1,917 | 1,917 |
| Intangible Assets | 2,756 | 2,817 | 3,047 | 3,047 | 3,047 |
| Total Other Non-Current Assets | | 41 | 431 | 340 | 438 |
| Total Non-current Assets | 29,395 | 35,760 | 39,218 | 38,034 | 36,833 |
| Short-term Debt | 7,332 | 8,466 | 3,050 | 3,050 | 3,050 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 21,605 | 21,409 | 20,809 | 22,282 | 22,964 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 28,937 | 29,875 | 23,859 | 25,332 | 26,014 |
| Total Long-term Debt | 2,803 | 3,424 | 4,485 | 4,485 | 4,485 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | 2,803 | 3,424 | 4,485 | 4,485 | 4,485 |
| Total Provisions | 1,033 | 1,343 | 1,444 | 1,444 | 1,444 |
| Total Liabilities | 32,773 | 34,642 | 29,788 | 31,261 | 31,943 |
| Shareholders Equity | 39,464 | 45,135 | 53,790 | 61,188 | 69,066 |
| Minority Interests | 72 | 81 | 102 | 102 | 102 |
| Total Equity | 39,536 | 45,217 | 53,892 | 61,290 | 69,168 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Revenue Growth | 28.5% | 20.6% | 6.0% | 9.5% | 8.5% |
| Operating EBITDA Growth | 12.0% | 11.7% | 25.2% | 6.0% | 6.4% |
| Operating EBITDA Margin | 15.2% | 14.1% | 16.6% | 16.1% | 15.8% |
| Net Cash Per Share (Rs) | (5.26) | (7.65) | (1.86) | (0.11) | 2.62 |
| BVPS (Rs) | 33.85 | 38.72 | 46.14 | 52.49 | 59.24 |
| Gross Interest Cover | 21.78 | 12.33 | 19.56 | 25.51 | 26.38 |
| Effective Tax Rate | 25.8% | 26.0% | 24.9% | 25.2% | 25.2% |
| Net Dividend Payout Ratio | 42.3% | 45.3% | 40.8% | 41.1% | 41.0% |
| Accounts Receivables Days | 43.19 | 39.66 | 41.48 | 41.50 | 46.57 |
| Inventory Days | 132.17 | 125.68 | 123.54 | 124.68 | 133.05 |
| Accounts Payables Days | 132.99 | 116.63 | 115.93 | 107.97 | 103.28 |
| ROIC (%) | 24.5% | 22.7% | 27.5% | 26.5% | 26.2% |
| ROCE (%) | 24.7% | 23.0% | 25.9% | 24.8% | 23.7% |
| Return On Average Assets | 12.5% | 12.0% | 14.5% | 13.5% | 13.1% |

| Key Drivers | | | | | |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Domestic revenue growth | 28.6% | 22.3% | 5.6% | 7.9% | 7.8% |
| EBIDTA margins | 15.2% | 14.1% | 16.6% | 16.1% | 15.8% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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