

India

HOLD (previously REDUCE)

Consensus ratings*: Buy 6 Hold 4 Sell 18

Current price:	Rs718
Target price:	Rs754
Previous target:	Rs746
Up/downside:	5.0%
InCred Research / Consensus:	0.1%
Reuters:	BRGR.NS
Bloomberg:	BRGR IN
Market cap:	US\$9,252m
	Rs697,362m
Average daily turnover:	US\$8.2m
	Rs618.7m
Current shares o/s:	971.3m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

- Upgrade to HOLD with a higher TP of Rs754.
- FY23F/24F revenue raised by 8% each.
- FY23F/24F EPS raised by 6%/4%.

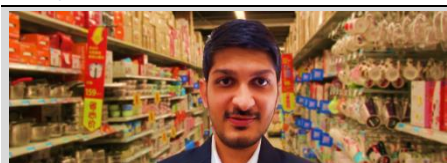


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.7)	(7.9)	(7.0)
Relative (%)	(4.8)	(5.1)	(17.6)

Major shareholders	% held
Promoter and Promoter Group	75.0
Nalanda India Fund	4.0
LIC	2.2

Analyst(s)



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Berger Paints India Limited

Fairly Priced

- Berger's 3QFY22 consolidated sales grew 20.4% (domestic volume growth: 12%). Gross/EBITDA margins contracted by 760bp/420bp, respectively, yoy.
- Improvement in disclosures (quantitative details on volume and performance of subsidiaries) is progressive and moving towards peers.
- After the recent fall in share price (10% in last one month), Berger seems fairly priced at 62x/54x FY23F/24F EPS, respectively. Upgrade to HOLD.

Demand for decorative paints remains strong

Berger's standalone sales were up 21.2% yoy (two-year CAGR of 22.6%) at Rs22.6bn led by decorative paints' volume growth of 12%. Decorative paints' growth was ahead of industrial paints as automotive (especially two-wheeler) demand was subdued in 3Q. Demand was stronger in urban areas, which also contributed to a richer product mix. Waterproofing, construction chemicals and institutional business continued to witness strong traction. In comparison, Asian Paints' domestic sales (two-year CAGR)/volume grew 25.4%/18% yoy, respectively, in 3Q. Berger has been less aggressive in volume-heavy low ASP products (where rebates have been higher). Protecting market share remains the topmost priority for Berger even as competition from newer players steps up.

Subsidiaries - strong topline but margins hit due to cost pressure

Berger's overseas subsidiaries' sales grew 15% yoy as Bolix and Nepal operations recorded another quarter of robust sales growth. Domestic subsidiaries grew 20% yoy. Performance of specialty coating and construction chemical subsidiaries was encouraging, even though profitability was hit due to input cost inflation and protracted negotiations for price hikes that will be implemented in 4QFY22F which should aid sequential improvement in margins.

Margins to normalize as the full effect of pricing kicks in

Berger's consolidated gross margin (GM) contracted by 760bp yoy to 36.7% (vs. Asian Paints' GM contraction of 865bp to 37.5%). Input costs continued to remain elevated. Berger's consolidated EBITDA declined 5.5% yoy to Rs3.9bn while EBITDA margin contracted by 420bp yoy to 15.4%. Standalone EBITDA declined 9.1% yoy to Rs3.4bn (Pidilite/Asian Paints standalone EBITDA declined by 17%/11%, respectively). Pricing actions (YTD FY22) taken in decorative paints business are sufficient to cover input costs at current levels while further price hikes will be taken in industrial business in 4QFY22F.

Stock looks fairly priced after recent correction; upgrade to HOLD

After the recent correction in share price (10% in last one month), Berger appears fairly priced at 62x/54x FY23F/24F EPS, respectively. We still wait for a better entry point but upgrade the stock to HOLD (from REDUCE) with a higher target price of Rs754 (Rs746 earlier), as we roll forward to FY24F (based on 58x FY24F EPS). Key upside/downside risk is higher/lower-than-estimated sales/EBITDA growth.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	63,658	68,176	90,364	104,352	117,290
Operating EBITDA (Rsm)	10,610	11,880	13,636	17,087	19,453
Net Profit (Rsm)	6,744	7,310	8,623	11,195	12,817
Core EPS (Rs)	6.9	7.5	8.9	11.5	13.2
Core EPS Growth	35.0%	8.4%	18.0%	29.8%	14.5%
FD Core P/E (x)	103.38	95.40	80.87	62.29	54.41
DPS (Rs)	2.8	2.9	3.2	4.1	4.7
Dividend Yield	0.45%	0.47%	0.52%	0.66%	0.76%
EV/EBITDA (x)	66.07	58.69	50.76	40.33	35.04
P/FCFE (x)	140.75	296.41	79.95	89.57	54.33
Net Gearing	13.8%	(0.5%)	(13.5%)	(18.5%)	(30.1%)
P/BV (x)	26.21	20.65	18.01	15.43	13.27
ROE	26.3%	24.2%	23.8%	26.7%	26.2%
% Change In Core EPS Estimates			6.19%	6.05%	4.29%
InCred Research/Consensus EPS (x)			0.99	0.99	0.96

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Fairly priced

Key takeaways from the earnings call

Demand and operating environment

- The quarter registered sustained growth across businesses (decorative paint volume grew 28% yoy in 9MFY22 and 12% yoy in 3Q), barring the automotive segment (two-wheelers), which recorded muted growth due to lower production numbers.
- Urban markets (metro and Tier-1 cities) outperformed rural markets led by festive demand and recovery in institutional business, aiding better mix within the decorative paint segment in 3Q.
- New product launches like water-based primers, admixtures and construction chemicals performed well.

Input costs and margins

- Price hikes of 24% were taken in decorative paint segment till Dec 2021 (since Jan 2021), a bulk of which were taken in 3Q, due to which only partial impact of pricing was recorded. Going ahead, management is optimistic of reaching pre-Covid margins led by price hikes. In industrial segment (higher impact of inflation vs. decorative paint segment), prices were hiked in a phased manner (some taken in the second-half of Dec 2021) and more are going to be implemented in 4QFY22F.
- Raw material index was up 28-29% yoy compared to last year. Crude oil prices grew by US\$6-7/bbl in Jan 2022 and some impact of this is expected on solvents and monomers. Some margin pressure was offset through vendor development and reformulation initiatives taken earlier, which were visible during the quarter.
- In 3QFY21, Berger had stronger supply apply contract sales compared to 3QFY22, leading to lower raw material costs as a % of sales in the base period (offset by higher other expenses to the same extent).

Joint Venture

- Both joint ventures (with Becker and Nippon) performed well during 3Q but were impacted due to raw material inflation, but as price hikes have already been implemented (with more planned in 4QFY22F), gross margin is expected to improve for both going ahead.

Other highlights

- **Distribution:** The focus will be on expanding network presence in newer (rural) markets going ahead.
- **Rebates:** The company has not made any changes in its rebate policies or credit period (unlike some peers). After discounts, effective price hikes are in mid-teens. The company participated less in categories which otherwise saw abnormal discounts.
- **Capacity expansion:** The company's facility expansion in Uttar Pradesh is on track and as per the sunset clause for the plant, all infrastructure has to be in place before commencing operations. The plant is likely to be commissioned in mid- CY22F.

Figure 1: Quarterly summary - consolidated

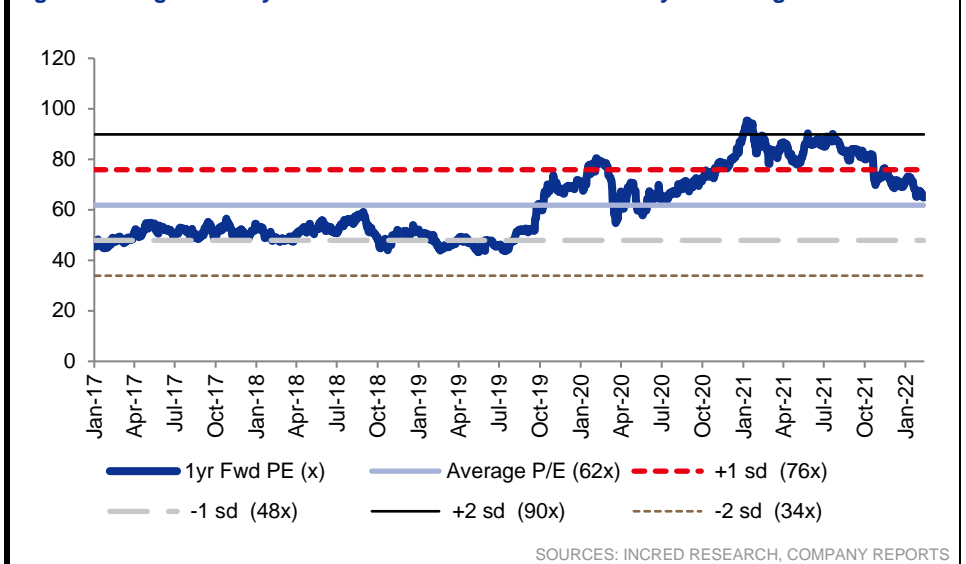
Y/E, Mar (Rs. m)	3QFY21	2QFY22	3QFY22	YoY (%)	QoQ (%)	9MFY21	9MFY22	YoY (%)
Revenue	21,182	22,250	25,508	20.4	14.6	47,915	65,743	37.2
Expenditure	17,032	18,710	21,587	26.7	15.4	39,492	55,896	41.5
Consumption of RM	11,812	13,727	16,153	36.7	17.7	27,276	40,927	50.0
as % of sales	55.8	61.7	63.3			56.9	62.3	
Employee Cost	1,281	1,419	1,360	6.2	-4.2	3,584	4,090	14.1
as % of sales	6.0	6.4	5.3			7.5	6.2	
Other expenditure	3,939	3,564	4,074	3.4	14.3	8,633	10,880	26.0
as % of sales	18.6	16.0	16.0			18.0	16.5	
EBITDA	4,150	3,540	3,921	-5.5	10.8	8,423	9,846	16.9
Depreciation	529	559	561	6.0	0.3	1,570	1,668	6.3
EBIT	3,621	2,981	3,361	-7.2	12.7	6,853	8,179	19.3
Other Income	156	130	155	-1.0	18.9	466	455	-2.4
Interest	89	127	139	56.1	9.2	322	361	12.2
PBT	3,689	2,984	3,377	-8.5	13.2	6,998	8,272	18.2
Total Tax	949	792	842	-11.3	6.3	1,841	2,132	15.8
Adjusted PAT	2,740	2,192	2,535	-7.5	15.6	5,157	6,140	19.1
(Profit)/loss from JV's/Ass/MI	-10	4	9	-	-	43	20	-53.1
APAT after MI	2,750	2,189	2,526	-8.1	15.4	5,113	6,120	19.7
Extraordinary items	0	0	0	-	-	0	0	-
Reported PAT	2,750	2,189	2,526	-8.1	15.4	5,113	6,120	19.7
Adjusted EPS	2.8	2.3	2.6	-8.1	15.4	5.3	6.3	19.7
Margins (%)	3QFY21	2QFY22	3QFY22	(bps)	(bps)	9MFY21	9MFY22	(bps)
Gross margin	44.2	38.3	36.7	-760	-160	43.1	37.7	-530
EBIDTA	19.6	15.9	15.4	-420	-50	17.6	15.0	-260
EBIT	17.1	13.4	13.2	-390	-20	14.3	12.4	-190
EBT	17.4	13.4	13.2	-420	-20	14.6	12.6	-200
PAT	13.0	9.8	9.9	-310	10	10.7	9.3	-140
Effective Tax rate	25.7	26.5	24.9	-80	-160	26.3	25.8	-50

SOURCES: INCRED RESEARCH, COMPANY REPORTS

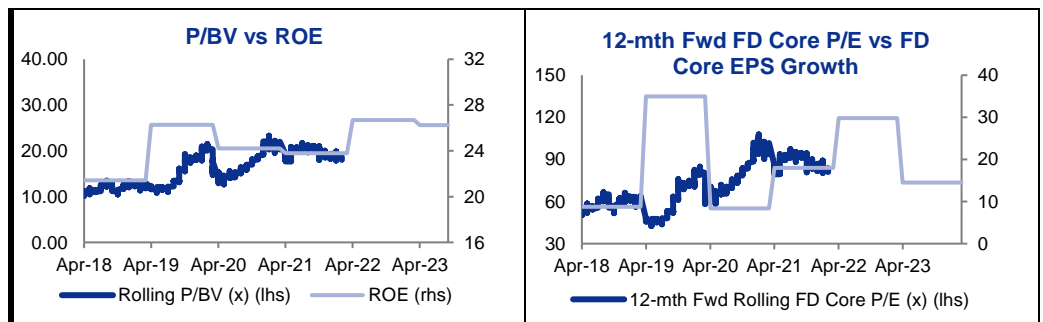
Figure 2: Revisions in our estimates

Y/E, Mar (Rs. m)	FY22F			FY23F			FY24F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net Sales	83,651	90,364	8.0	96,599	1,04,352	8.0	1,08,573	1,17,290	8.0
EBITDA	13,365	13,636	2.0	16,788	17,087	1.8	19,335	19,453	0.6
EBITDA Margin (%)	16.0	15.1	-90 bp	17.4	16.4	-100 bp	17.8	16.6	-120 bp
APAT	8,061	8,563	6.2	10,437	11,075	6.1	12,110	12,637	4.4
EPS	8.3	8.8	6.2	10.7	11.4	6.1	12.5	13.0	4.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Berger's one-year forward P/E trades close to five-year average P/E


SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	63,658	68,176	90,364	104,352	117,290
Gross Profit	26,400	29,490	34,247	42,025	47,895
Operating EBITDA	10,610	11,880	13,636	17,087	19,453
Depreciation And Amortisation	(1,910)	(2,111)	(2,247)	(2,441)	(2,723)
Operating EBIT	8,700	9,768	11,389	14,645	16,730
Financial Income/(Expense)	215	74	110	251	296
Pretax Income/(Loss) from Assoc.	83	56	30	60	90
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,998	9,898	11,529	14,957	17,116
Exceptional Items					
Pre-tax Profit	8,998	9,898	11,529	14,957	17,116
Taxation	(2,271)	(2,589)	(2,905)	(3,762)	(4,300)
Exceptional Income - post-tax					
Profit After Tax	6,727	7,309	8,623	11,195	12,817
Minority Interests	17				
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,744	7,310	8,623	11,195	12,817
Recurring Net Profit	6,744	7,310	8,623	11,195	12,817
Fully Diluted Recurring Net Profit	6,744	7,310	8,623	11,195	12,817

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	10,610	11,880	13,636	17,087	19,453
Cash Flow from Invt. & Assoc.					
Change In Working Capital	186	(2,682)	383	(3,291)	(114)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(80)				
Other Operating Cashflow					
Net Interest (Paid)/Received	(470)	(441)	(501)	(418)	(438)
Tax Paid	(2,271)	(2,589)	(2,905)	(3,762)	(4,300)
Cashflow From Operations	7,975	6,168	10,612	9,616	14,601
Capex	(7,333)	(2,594)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,483	110	611	670	735
Cash Flow From Investing	(5,851)	(2,484)	(1,889)	(1,830)	(1,765)
Debt Raised/(repaid)	2,830	(1,331)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,155)	(3,268)	(3,598)	(4,621)	(5,284)
Preferred Dividends					
Other Financing Cashflow	(1,984)	3,198	(30)	(60)	(90)
Cash Flow From Financing	(2,309)	(1,401)	(3,628)	(4,681)	(5,374)
Total Cash Generated	(185)	2,283	5,095	3,105	7,462
Free Cashflow To Equity	4,954	2,353	8,723	7,786	12,836
Free Cashflow To Firm	2,594	4,125	9,224	8,204	13,274

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	3,993	6,494	11,589	14,694	22,156
Total Debtors	7,141	10,197	10,420	11,907	13,533
Inventories	12,785	16,161	16,526	19,008	21,445
Total Other Current Assets	2,487	2,959	2,959	2,959	2,959
Total Current Assets	26,406	35,811	41,493	48,567	60,092
Fixed Assets	18,151	18,633	18,886	18,945	18,722
Total Investments	1,358	1,459	1,459	1,459	1,459
Intangible Assets	2,790	2,876	2,876	2,876	2,876
Total Other Non-Current Assets	290	397	375	427	474
Total Non-current Assets	22,589	23,365	23,596	23,707	23,531
Short-term Debt	2,925	2,143	2,143	2,143	2,143
Current Portion of Long-Term Debt					
Total Creditors	13,609	17,958	18,906	19,637	23,633
Other Current Liabilities					
Total Current Liabilities	16,534	20,101	21,049	21,779	25,776
Total Long-term Debt	4,744	4,195	4,195	4,195	4,195
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	4,744	4,195	4,195	4,195	4,195
Total Provisions	1,045	1,041	1,041	1,041	1,041
Total Liabilities	22,323	25,337	26,285	27,015	31,012
Shareholders Equity	26,601	33,769	38,734	45,188	52,541
Minority Interests	71	71	71	71	71
Total Equity	26,672	33,839	38,805	45,259	52,612

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	5.0%	7.1%	32.5%	15.5%	12.4%
Operating EBITDA Growth	20.3%	12.0%	14.8%	25.3%	13.9%
Operating EBITDA Margin	16.7%	17.4%	15.1%	16.4%	16.6%
Net Cash Per Share (Rs)	(3.79)	0.16	5.41	8.60	16.28
BVPS (Rs)	27.39	34.77	39.87	46.52	54.09
Gross Interest Cover	18.49	22.15	22.73	35.02	38.18
Effective Tax Rate	25.2%	26.2%	25.2%	25.1%	25.1%
Net Dividend Payout Ratio	46.8%	44.7%	41.7%	41.3%	41.2%
Accounts Receivables Days	39.72	46.41	41.64	39.05	39.58
Inventory Days	123.04	136.55	106.31	104.05	106.38
Accounts Payables Days	129.15	148.92	119.89	112.86	113.79
ROIC (%)	29.0%	29.4%	34.4%	40.1%	46.0%
ROCE (%)	27.2%	26.4%	26.4%	30.0%	30.0%
Return On Average Assets	14.1%	13.4%	13.7%	15.9%	16.1%

Key Drivers					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Domestic revenue growth	3.2%	5.8%	32.9%	15.5%	12.3%
EBIDTA margins	16.7%	17.4%	15.1%	16.4%	16.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.