

India

HOLD (no change)

Consensus ratings*: Buy 8 Hold 4 Sell 10

Current price:	Rs629
Target price:	Rs640
Previous target:	Rs754
Up/downside:	1.7%
InCred Research / Consensus:	12.0%
Reuters:	
Bloomberg:	BRGR IN
Market cap:	US\$8,417m Rs611,219m
Average daily turnover:	US\$5.4m Rs389.8m
Current shares o/s:	971.3m
Free float:	25.0%
*Source: Bloomberg	

Key changes in this note

- Lower target price to Rs640.
- Introduce FY25F estimates.

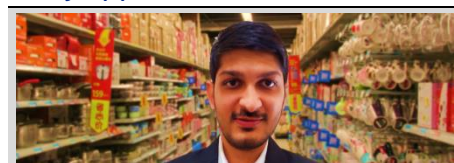


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.7	12.6	(4.2)
Relative (%)	5.4	10.8	(18.6)

Major shareholders	% held
Promoter and Promoter Group	75.0
LIC	1.7
Vanguard Group	1.0

Analyst(s)



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Berger Paints India Limited

Fairly priced

- BRGR reported 4QFY23 standalone sales volume/value growth of 11.1%/13.6%, respectively. Decorative paints volume/value growth were in the 14-15% range. Management expects the double-digit momentum to continue.
- Adjusting the provision for doubtful debts (expected to realize) of Rs210m, consolidated EBITDA margin expanded by 20bp yoy to 16%. The guided range for FY24F stands at 16-17%.
- The stock is fairly priced at 51x/48x FY24F/25F EPS, respectively. We maintain HOLD rating on it with a lower target price of Rs640 (49x FY25F EPS).

Demand for decorative paints remains strong

Berger Paints' (or BRGR) standalone sales growth of 13.6% yoy was in line with Asian Paints (APNT). The standalone volume growth stood at 11.1%. Volume growth was dragged as the industrial business reported pricing-led growth (muted volume) while the decorative paints business reported a 14.5% volume growth (APNT: 16%). The pace of distribution expansion significantly accelerated with the company adding 8,000 outlets (vs. 4,000-5,000 earlier) in FY23, taking the count to 40,000. Tinting machines (c.5,200) were installed at c.65% of the outlets added. The company plans to add 8,000 outlets in FY24F. Management expects a 5% growth from the 20% outlet addition. In the industrial business, all segments, except powder coating (affected by fans), reported a healthy pricing-led sales growth with improvement in profitability. Management sounded sanguine on near-term demand and margin outlook.

Adverse macroeconomic environment hits growth of overseas arms

BRGR's overseas subsidiaries' sales were adversely affected as both Poland (Bolix) and Nepal operations recorded a decline in sales and profits, primarily due to high inflation pressure. STP (waterproofing and construction chemicals business) and Berger Nippon Paint Automotive Coatings joint venture registered robust topline and profitability growth.

Sanguine on margins

BRGR's consolidated gross margin expanded by 90bp yoy to 39.8%. Consolidated EBITDA grew by 6.4% yoy to Rs3.7bn while EBITDA margin contracted by 70bp yoy to 15.1%. One-offs had an impact of 100-120bp on margins. Given the stable raw material prices and normal rebating intensity, management expects consolidated EBITDA margin to be in the range of 16%-17% in FY24F, notwithstanding the increased spending on advertisements.

Maintain HOLD rating on the stock with a lower target price of Rs640

BRGR appears fairly priced at 51x/48x FY23F/24F EPS, respectively. We retain HOLD rating on it with a lower target price of Rs640 (Rs754 earlier), based on 49x FY25F EPS. Key upside/downside risks: Higher-than-estimated/lower-than-estimated sales/EBITDA growth, respectively.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	68,176	87,618	105,678	117,580	128,691
Operating EBITDA (Rsm)	11,880	13,311	14,872	19,436	20,632
Net Profit (Rsm)	7,310	8,257	8,858	11,983	12,754
Core EPS (Rs)	7.5	8.5	9.1	12.3	13.1
Core EPS Growth	8.4%	13.0%	7.3%	35.3%	6.4%
FD Core P/E (x)	83.60	74.02	69.00	51.01	47.92
DPS (Rs)	2.9	3.1	3.5	4.7	5.0
Dividend Yield	0.53%	0.58%	0.64%	0.86%	0.92%
EV/EBITDA (x)	51.43	46.38	41.70	31.42	29.37
P/FCFE (x)	259.77	440.17	254.84	75.74	58.58
Net Gearing	(0.5%)	15.6%	19.8%	(1.0%)	(9.0%)
P/BV (x)	18.10	15.56	13.60	11.88	10.46
ROE	24.2%	22.6%	21.0%	24.9%	23.2%
% Change In Core EPS Estimates				(6.51%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fairly priced

Key takeaways from the earnings call

Demand and operating environment➤

- Berger Paints gained market share in FY23.
- Demand in Apr 2023 was good. Management expects the same to carry on in May-Jun 2023F, and also continue the trajectory of double-digit growth in the decorative paints business in 1QFY24F as the demand outlook remains healthy. Over the next two years, management expects construction chemicals to account for 10% of the decorative paints segment's sales.
- Volume/value grew 11.1%/13.6% yoy, respectively, led by a 14.5% yoy growth in the decorative paints volume in 4QFY23, while the industrial business was flat yoy in volume terms (grew in double digits in value terms). In FY23, volume/value growth stood at 15.5%/22.3% yoy, respectively.
- The company's standalone sales growth of 22% in FY23 was the highest in the industry.
- **Industrial:** Protective business (in which Berger Paints is the market leader) topped Rs10bn in FY23. Non-automotive industrial business (including protective) stood at Rs14.5bn in FY23. The industrial segment's sales outlook remains strong on the back of an uptick in the automotive and infrastructure sectors.
- **Distribution:** The pace of distribution expansion increased as Berger Paints added 8,000 outlets (5,200 tinting machines) in FY23 (vs. 4,000-5,000 outlets per year before FY22) taking the total to 40,000 in FY23. Management expects to add another 8,000 outlets in FY24F, taking the total to the c.48,000 level.
- **Market share (region-wise):** Berger Paints is the strongest in the eastern region and is well placed in the northern region but is weaker in the western and southern regions. Its market share hovers between 19-20% with a higher share in the northern and eastern regions. In South India, Berger Paints is strong in Kerala and Andhra Pradesh but weak in Tamil Nadu, Telangana and Karnataka.
- **Category-wise commentary:** Management pointed out that there is still some work to be done in the luxury category as Silk Glamour (interior paints) has not grown very well. Premium luxury (Easy Clean and Anti Dust) is doing well (both leaders in the category). Berger Paints is expected to increase its spending on advertisements in luxe and pre-luxe categories to drive growth.

Input cost and margins ➤

- **Ad spending:** The growth in spending on advertisements was faster than sales growth in 4QFY23 owing to extra spending on the digital medium (lower spending on the TV medium). Overall, compared to the pre-Covid level, there has been a marginal increase in TV advertisement spending while digital advertisement spending has been more substantial.
- **Rebates:** They may inch up (not significantly) as raw material prices settle down, but management stated that it is not seeing hyperactivity in rebating, as witnessed last year.
- **Industrial segment's margins:** Powder coatings command higher margins, closer to decorative paints' margins. Protective coatings and automotive segments' EBITDA margins were in double digits in 4QFY23. On a blended basis, the industrial segment's margins may be in the 12-14% range.
- **Margin outlook:** Management expects EBITDA margin in the range of 16.5%-17% in 1QFY24F. Profitability is expected to improve in 1QFY24F owing to 1) improvement in gross margin and operating margin, 2) no one-offs next year,

and 3) cost-saving initiatives. Gross margin is expected to remain at the current level (39.6%).

- **One-offs** in 4QFY23 were recorded, relating to the Sandila plant and delay in receivable (Rs210-Rs220mn) from Andhra Pradesh government. Management is confident of receiving the payment in 1HFY24F. Excluding these one-offs, management claimed that EBITDA margin would have been c.100bp higher.
- Management gave guidance that the company would turn net cash by FY24F (with lower interest cost).
- Berger Paints has the shortest receivable days at 37-38 days and 23 days in the decorative paints segment across the industry.
- Prices of raw materials are expected to remain benign in the near term.

Expansion of manufacturing facilities ►

- Berger Paints' current capacity stands at 95,000mtpa.
- The company set up its largest facility at Sandila in Uttar Pradesh with a capacity of 33,000mtpa at an investment of Rs10.37bn. This facility will aid in 1) reduction of freight cost, 2) sales and operating cost reduction, and 3) drive tax benefit. Present capacity utilization stands in the range of 40%-50%.
- In FY24F, some capacity expansion is expected at existing facilities, but no further greenfield projects are likely.
- By Mar 2025F, a new plant will be commissioned at Panagarh in West Bengal to produce industrial paints and construction chemicals.

Figure 1: Quarterly summary - Consolidated

Y/E, Mar (Rs. m)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Revenue	21,875	26,936	24,436	11.7	-9.3	87,618	1,05,678	20.6
Expenditure	18,411	23,439	20,539	11.6	-12.4	74,307	90,596	21.9
Consumption of RM	13,364	17,591	14,702	10.0	-16.4	54,291	67,305	24.0
as % of sales	61.1	65.3	60.2			62.0	63.7	
Employee Cost	1,341	1,481	1,547	15.3	4.4	5,431	6,092	12.2
as % of sales	6.1	5.5	6.3			6.2	5.8	
Other expenditure	3,705	4,367	4,290	15.8	-1.8	14,585	17,199	17.9
as % of sales	16.9	16.2	17.6			16.6	16.3	
EBITDA	3,464	3,497	3,898	12.5	11.5	13,311	15,082	13.3
Depreciation	598	644	744	24.5	15.6	2,265	2,640	16.6
EBIT	2,867	2,853	3,154	10.0	10.5	11,046	12,442	12.6
Other Income	191	109	151	-21.2	38.5	646	516	-20.2
Interest	146	296	293	100.5	-0.8	507	992	95.6
PBT	2,912	2,666	3,011	3.4	12.9	11,184	11,965	7.0
Total Tax	762	680	719	-5.6	5.8	2,893	3,019	4.4
Adjusted PAT	2,151	1,987	2,292	6.6	15.4	8,291	8,946	7.9
(Profit)/loss from JVs/Ass/MI	-56	-23	225	-	-	-36	142	-494.2
APAT after MI	2,207	2,009	2,067	-6.3	2.9	8,327	8,804	5.7
Extraordinary Items	0	0	0	-	-	0	0	-
Reported PAT	2,207	2,009	2,067	-6.3	2.9	8,327	8,804	5.7
Adjusted EPS	2.3	2.1	2.1	-6.3	2.9	8.6	9.1	5.7
Margins (%)	4QFY22	3QFY23	4QFY23	(bp)	(bp)	FY22	FY23	(bp)
Gross Margin	38.9	34.7	39.8	90	510	38.0	36.3	-170
EBIDTA	15.8	13.0	16.0	10	300	15.2	14.3	-90
EBIT	13.1	10.6	12.9	-20	230	12.6	11.8	-80
EBT	13.3	9.9	12.3	-100	240	12.8	11.3	-140
PAT	10.1	7.5	8.5	-160	100	9.5	8.3	-120
Effective Tax Rate	26.2	25.5	23.9	-230	-160	25.9	25.2	-60

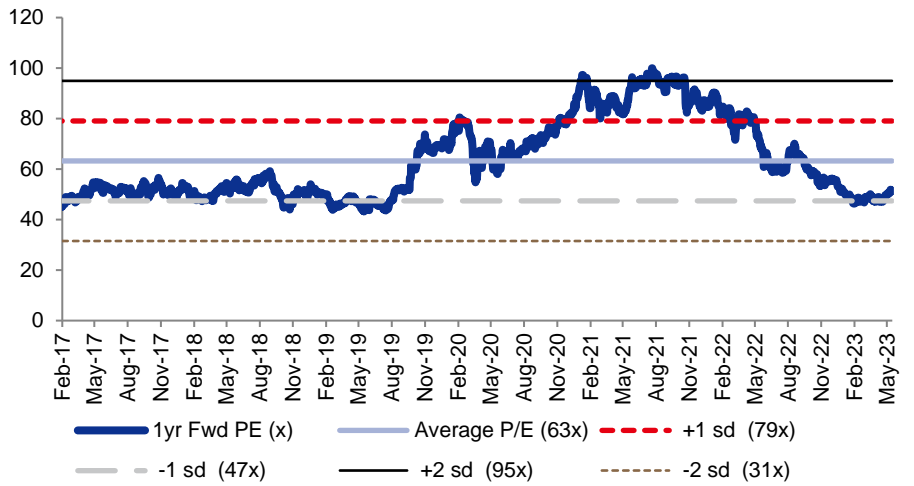
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E, Mar (Rs. m)	Earlier	FY24F Revised	% Change	FY25F Introduced
Net Sales	1,17,290	1,17,580	0.2	1,28,691
EBITDA	19,453	19,436	-0.1	20,632
EBITDA Margin (%)	16.6	16.5	-10 bp	16.0
APAT	12,637	11,803	-6.6	12,574
EPS	13.0	12.2	-6.6	12.9

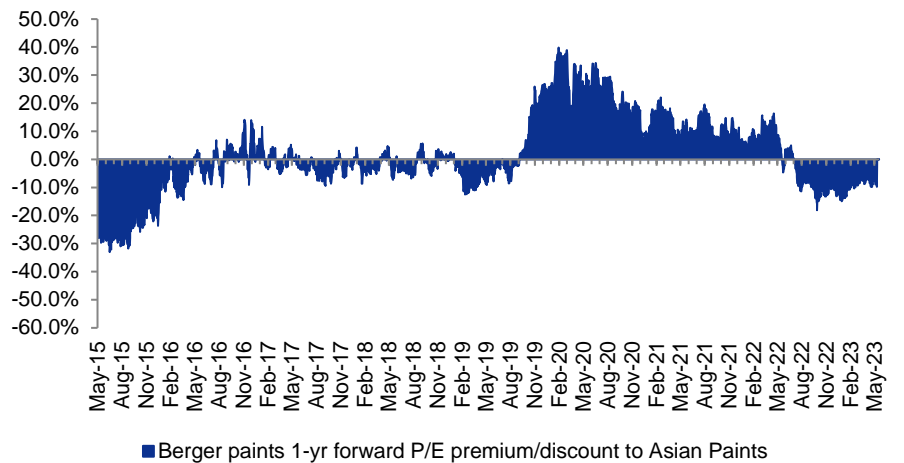
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Berger Paints' one-year forward P/E trades above -1SD



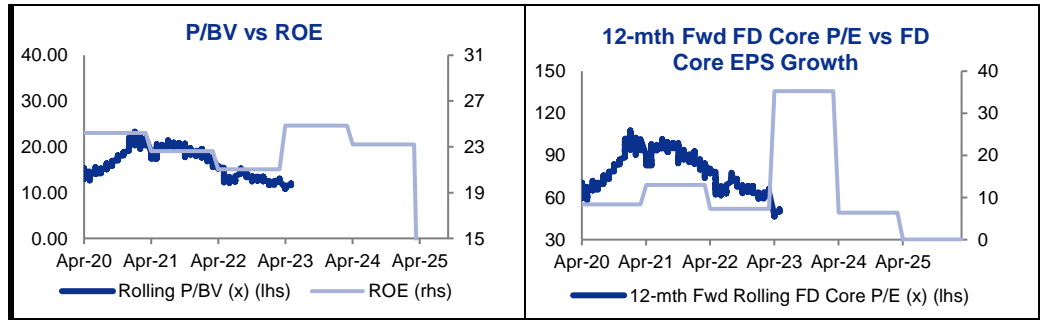
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Berger Paints' one year forward P/E trades at a 9.8% discount to Asian Paints



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	68,176	87,618	105,678	117,580	128,691
Gross Profit	29,490	33,327	38,373	46,117	50,352
Operating EBITDA	11,880	13,311	14,872	19,436	20,632
Depreciation And Amortisation	(2,111)	(2,265)	(2,640)	(3,286)	(3,516)
Operating EBIT	9,768	11,046	12,232	16,150	17,116
Financial Income/(Expense)	74	139	(477)	31	128
Pretax Income/(Loss) from Assoc.	56	(33)	132	90	90
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	9,898	11,152	11,887	16,271	17,334
Exceptional Items					
Pre-tax Profit	9,898	11,152	11,887	16,271	17,334
Taxation	(2,589)	(2,893)	(3,019)	(4,288)	(4,580)
Exceptional Income - post-tax					
Profit After Tax	7,309	8,258	8,867	11,983	12,754
Minority Interests		(1)	(10)		
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,310	8,257	8,858	11,983	12,754
Recurring Net Profit	7,310	8,257	8,858	11,983	12,754
Fully Diluted Recurring Net Profit	7,310	8,257	8,858	11,983	12,754

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	11,880	13,311	14,872	19,436	20,632
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,682)	(5,378)	(2,172)	2,137	(3,246)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(441)	(507)	(992)	(591)	(576)
Tax Paid	(2,589)	(2,893)	(3,019)	(4,288)	(4,580)
Cashflow From Operations	6,168	4,532	8,688	16,694	12,231
Capex	(2,594)	(8,801)	(9,072)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	110	1,859	1,028	623	704
Cash Flow From Investing	(2,484)	(6,941)	(8,044)	(1,877)	(1,796)
Debt Raised/(repaid)	(1,331)	3,798	1,754	(6,747)	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,268)	(3,524)	(3,892)	(5,280)	(5,596)
Preferred Dividends					
Other Financing Cashflow	3,198	754	881	(90)	(90)
Cash Flow From Financing	(1,401)	1,028	(1,256)	(12,117)	(5,686)
Total Cash Generated	2,283	(1,381)	(613)	2,700	4,749
Free Cashflow To Equity	2,353	1,388	2,398	8,070	10,434
Free Cashflow To Firm	4,125	(1,902)	1,636	15,408	11,010

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	6,494	4,002	2,977	5,676	10,425
Total Debtors	10,197	10,537	12,431	13,460	15,157
Inventories	16,161	23,158	23,191	21,587	23,522
Total Other Current Assets	2,959	5,018	5,302	5,302	5,302
Total Current Assets	35,811	42,715	43,901	46,026	54,406
Fixed Assets	18,633	25,169	31,601	30,814	29,798
Total Investments	1,459	1,471	1,302	1,302	1,302
Intangible Assets	2,876	2,756	2,817	2,817	2,817
Total Other Non-Current Assets	397		41	241	278
Total Non-current Assets	23,365	29,395	35,760	35,174	34,195
Short-term Debt	2,749	7,332	8,466	1,719	1,719
Current Portion of Long-Term Debt					
Total Creditors	17,958	21,605	21,409	23,171	23,595
Other Current Liabilities					
Total Current Liabilities	20,707	28,937	29,875	24,890	25,314
Total Long-term Debt	3,589	2,803	3,424	3,424	3,424
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	3,589	2,803	3,424	3,424	3,424
Total Provisions	1,041	1,033	1,343	1,343	1,343
Total Liabilities	25,337	32,773	34,642	29,657	30,080
Shareholders Equity	33,769	39,270	44,941	51,465	58,443
Minority Interests	71	72	81	81	81
Total Equity	33,839	39,342	45,023	51,546	58,524

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	7.1%	28.5%	20.6%	11.3%	9.4%
Operating EBITDA Growth	12.0%	12.0%	11.7%	30.7%	6.2%
Operating EBITDA Margin	17.4%	15.2%	14.1%	16.5%	16.0%
Net Cash Per Share (Rs)	0.16	(6.31)	(9.18)	0.55	5.44
BVPS (Rs)	34.77	40.43	46.26	52.98	60.16
Gross Interest Cover	22.15	21.78	12.33	27.30	29.72
Effective Tax Rate	26.2%	25.9%	25.4%	26.4%	26.4%
Net Dividend Payout Ratio	44.7%	42.7%	43.9%	44.1%	43.9%
Accounts Receivables Days	46.41	43.19	39.66	40.19	40.58
Inventory Days	136.55	132.17	125.68	114.35	105.09
Accounts Payables Days	148.92	132.99	116.63	113.85	108.95
ROIC (%)	29.4%	24.5%	22.7%	31.6%	32.1%
ROCE (%)	26.4%	24.8%	23.1%	28.4%	28.4%
Return On Average Assets	13.4%	12.4%	12.3%	14.9%	14.9%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Domestic revenue growth	5.8%	28.6%	22.3%	10.9%	8.5%
EBIDTA margins	17.4%	15.2%	14.1%	16.5%	16.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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