

India

HOLD (no change)

Consensus ratings*: Buy 4 Hold 5 Sell 14

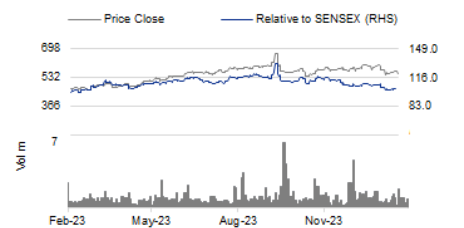
Current price: Rs556
 Target price:  Rs600
 Previous target: Rs600
 Up/downside: 7.9%
 InCred Research / Consensus: 8.0%

Reuters: BRGR.NS
 Bloomberg: BRGR IN
 Market cap: US\$7,801m
 Rs647,920m
 Average daily turnover: US\$8.6m
 Rs711.9m
 Current shares o/s: 1,165.7m
 Free float: 25.0%

*Source: Bloomberg

Key changes in this note

- Lower FY24F/25F EPS by 1%/1.1%.

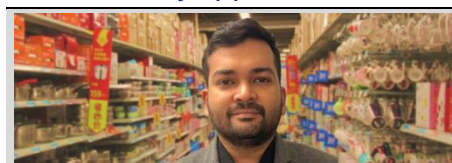


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.8)	(2.3)	18.3
Relative (%)	(7.0)	(12.1)	(1.2)

Major shareholders	% held
Promoter and Promoter Group	75.0
LIC	2.8
Vanguard Group	1.0

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Berger Paints India Limited

Gradual improvement expected

- Berger Paints' standalone sales/volume growth stood at 6.4%/9.1% yoy, respectively, in 3QFY24. Market share marginally moved above 20%.
- Gross/EBITDA margins expanded by 640bp/370bp yoy to 41.1%/16.7% in 3Q. Management expects the FY24F EBITDA margin in the range of 17-18%.
- Due to heightened competitive intensity and lofty valuation, we retain our HOLD rating on the stock with a target price of Rs600 (50x Dec 2025F EPS)

Market share at an all-time high in 9MFY24

Berger Paints India's (BRGR) 3QFY24 standalone sales growth stood at 6.4% yoy, with volume growth at 9.1%. BRGR marginally increased its market share above the 20% level in 9MFY24 (vs. 18.6%/19%/19.3% in FY21/FY22/FY23, respectively), touching its highest-ever point. The economy range performed better than premium offerings, driven by price cuts taken in Nov'23. Within the premium segment, BRGR's focus is on improving its position in interior coatings, where it lags the industry. The waterproofing/construction chemicals segment continued to post strong growth. Industrial business posted better growth, with double-digit growth in the automotive and general industrial segments. While the market share is at an all-time high, higher competitive intensity may halt further growth.

Subsidiaries continue to post a mixed performance

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 Becker 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 slowdown in the construction sector, liquidity constraints and are likely to remain marginally negative in 4QFY24F. Berger Becker Nippon (joint venture) continued to post a decline in sales and profitability because of capacity constraints due to a fire incident in 4QFY23.

Moderation of input cost inflation helped margin expansion

BRGR's consolidated gross margin expanded by 580bp yoy to 41.1%. Prices were cut by 2.7% in Jan 2024. Consolidated EBITDA grew by 30.1% yoy to Rs4.7bn while the EBITDA margin expanded by 350bp yoy to 17.1%. Given the benign raw material prices, management expects the consolidated EBITDA margin to be in the range of 17-18% in FY24F, notwithstanding the increased spending on advertisements (1.5% of 3Q sales).

Maintain HOLD rating with an unchanged target price of Rs600

BRGR trades at 50x/46x FY25F/26F EPS, respectively, with limited room for upside. We retain HOLD rating on it with an unchanged target price of Rs600 based on 50x Dep FY25F 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-24F	Mar-25F	Mar-26F
Revenue (Rsm)	87,618	105,678	116,439	125,721	136,378
Operating EBITDA (Rsm)	13,311	14,872	20,137	21,047	22,398
Net Profit (Rsm)	8,322	8,594	12,518	13,084	13,999
Core EPS (Rs)	7.1	7.4	10.7	11.2	12.0
Core EPS Growth	15.6%	3.3%	45.7%	4.5%	7.0%
FD Core P/E (x)	77.85	75.39	51.75	49.52	46.28
DPS (Rs)	3.1	3.5	4.1	4.3	4.5
Dividend Yield	0.54%	0.60%	0.86%	0.89%	0.95%
EV/EBITDA (x)	49.14	44.17	32.12	30.48	28.22
P/FCFE (x)	466.64	270.14	76.16	58.96	41.59
Net Gearing	15.5%	19.7%	(2.1%)	(10.7%)	(23.5%)
P/BV (x)	16.42	14.35	12.39	10.83	9.55
ROE	22.7%	20.3%	25.7%	23.3%	21.9%
% Change In Core EPS Estimates			(0.97%)	(1.16%)	(1.15%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gradual improvement expected

Key takeaways from the earnings call

Decorative paints business

- Volume was up 9.1% in 3QFY24 (10.9% in 9MFY24), with the decorative segment outperforming other segments, registering double-digit volume growth. Market share (value) is believed to have inched up slightly during the quarter to 20%.
- The gap between volume and value growth narrowed sequentially led by improvement in the mix. The volume-value gap in 3Q was on account of price cuts in Nov 2023 and the economy segment showing better traction.
- Decorative paints business grew in double digits, despite price cuts. Putty sales were lower as the competitive intensity was higher here and hence, BRGR stayed away in some markets. Enamel growth rate was a bit lower in 3Q.
- The premium range has been growing well post Covid, which slowed down YTFY24. Berger's premium range is stronger in the external application segment vs. the market leader who is stronger in the interior paints range.
- Construction chemicals and waterproofing business continued to post strong growth.
- Wood coatings did well.
- T2 and T3 cities saw better demand but both urban and rural markets posted growth.
- Network expansion continued, adding 2,300 retail touchpoints in 3QFY24, with 1,300+ tinting machines being added.

Industrial business

- Protective coatings and general industrial segments maintained their momentum.
- The automotive business posted decent growth on a high base, aided by growth in CV and two-wheeler segments.
- Powder coatings posted modest growth on the back of demand revival from the fan industry.
- Operating margin improved significantly.

Subsidiaries

- Bolix SA had a quarter of strong double-digit growth in topline and profitability, helped by a sharp expansion in the operating margin.
- BJN Nepal had another quarter of decline in its topline and profitability was impacted by downturn in the economy and liquidity problems. Expected to remain challenging in 4QFY24F as well.
- STP Ltd had another quarter of healthy topline growth and strong profitability growth on the back of operating margin expansion aided by improvement in gross margin on lower raw material prices as well as improvement in the product mix towards admixture & water-proofing products. We expect the growth performance to continue in 4QFY24F.
- SBL Specialty Coatings had decent topline growth aided by uptick in the fan segment and some additional line of businesses and a strong double-digit profitability growth on softening raw material prices. We expect the value growth to continue in 4QFY24F.
- Berger Nippon (JV) witnessed another quarter of decline in its revenue as well as profitability, which is primarily attributable to manufacturing capacity constraints (fire at Goa facility), as mentioned earlier.

- Berger Becker (JV) had another quarter of double-digit topline and robust profitability growth, riding on the strong performance in the passenger car and SUV segments. Expects the strong growth to continue in 4QFY24F.

Input costs and margins

- Advertising expenditure was higher in 3QFY24 at 1.5% of sales because of advertisements during the ICC Cricket World Cup matches.
- Price cuts to the tune of 2.7% were taken across three-to-four products in Jan 2024 - in line with the industry.

Outlook

- Management expects the demand momentum to continue in 4QFY24F in the decorative paints segment driven by improved rural demand.
- The automotive business is expected to continue its double-digit growth in 4QFY24F on the back of improved demand in the auto sector.
- Protective coatings are expected to do well on account of high government spending on infrastructure development.
- General industrial and powder coatings segments are expected to do well in 4QFY24F.
- The operating profit growth is expected to taper down sequentially due to price cuts. but grow on a yoy basis.
- Introducing Salesforce for front-end sales teams. Have interesting packages for applicators and dealers via mobile app.
- In case of higher competitive intensity, management would prefer to protect market share over maintaining margins.

Figure 1: Quarterly results summary – consolidated

Y/E, Mar (Rs. m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Revenue	26,936	27,673	28,818	7.0	4.1	81,242	86,786	6.8
Expenditure	23,439	22,937	24,018	2.5	4.7	70,058	71,682	2.3
Consumption of RM	17,591	16,294	16,981	-3.5	4.2	52,603	51,506	-2.1
as % of Sales	65.3	58.9	58.9			64.7	59.3	
Employee Cost	1,481	1,902	1,815	22.6	-4.6	4,545	5,386	18.5
as % of Sales	5.5	6.9	6.3			5.6	6.2	
Other Expenditure	4,367	4,740	5,222	19.6	10.2	12,909	14,790	14.6
as % of Sales	16.2	17.1	18.1			15.9	17.0	
EBITDA	3,497	4,737	4,800	37.3	1.3	11,184	15,104	35.0
Depreciation	644	829	829	28.8	0.0	1,896	2,440	28.7
EBIT	2,853	3,908	3,971	39.2	1.6	9,288	12,665	36.4
Other Income	109	153	189	74.1	24.0	365	478	31.0
Interest	296	211	196	-33.6	-6.9	699	604	-13.6
PBT	2,666	3,850	3,965	48.7	3.0	8,954	12,538	40.0
Total Tax	680	967	977	43.8	1.0	2,300	3,156	37.2
Adjusted PAT	1,987	2,883	2,988	50.4	3.6	6,654	9,382	41.0
(Profit)/Loss from JV's/Ass/MI	-23	-33	-9	-	-	-84	-74	-
APAT after MI	2,009	2,916	2,997	49.1	2.7	6,737	9,456	40.4
Extraordinary Items	0	0	-9	-	-	0	0	-
Reported PAT	2,009	2,916	3,005	49.6	3.1	6,737	9,456	40.4
Adjusted EPS	1.7	2.5	2.6	49.1	2.7	5.8	8.1	40.4
Margins (%)	3QFY23	2QFY24	3QFY24	(bp)	(bp)	9MFY23	9MFY24	(bp)
Gross margin	34.7	41.1	41.1	640	0	35.3	40.7	540
EBITDA	13.0	17.1	16.7	370	-50	13.8	17.4	360
EBIT	10.6	14.1	13.8	320	-30	11.4	14.6	320
EBT	9.9	13.9	13.8	390	-20	11.0	14.4	340
PAT	7.5	10.5	10.4	290	-10	8.3	10.9	260
Effective Tax Rate	25.5	25.1	24.6	-80	-50	25.7	25.2	-50

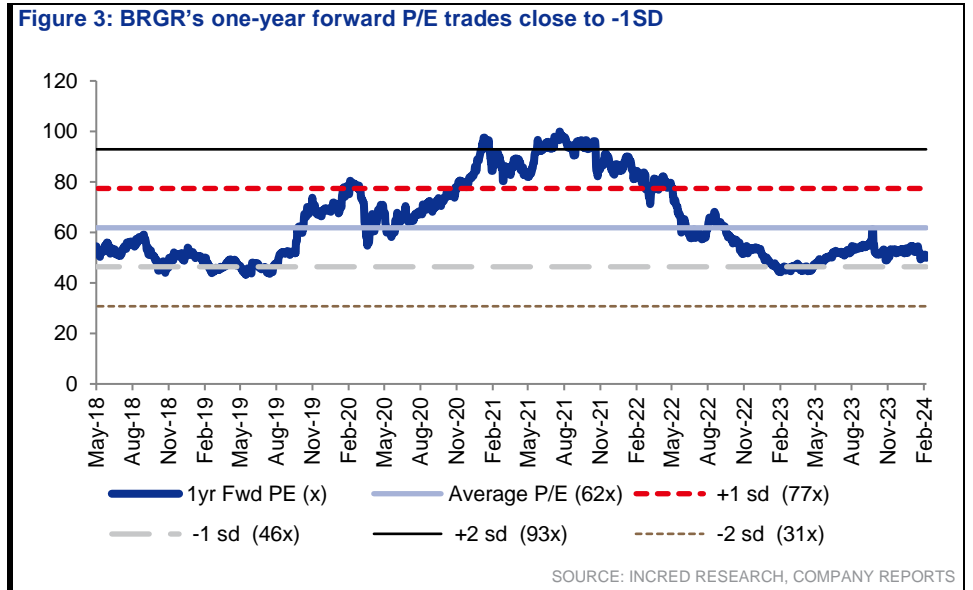
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revisions in our earnings estimates

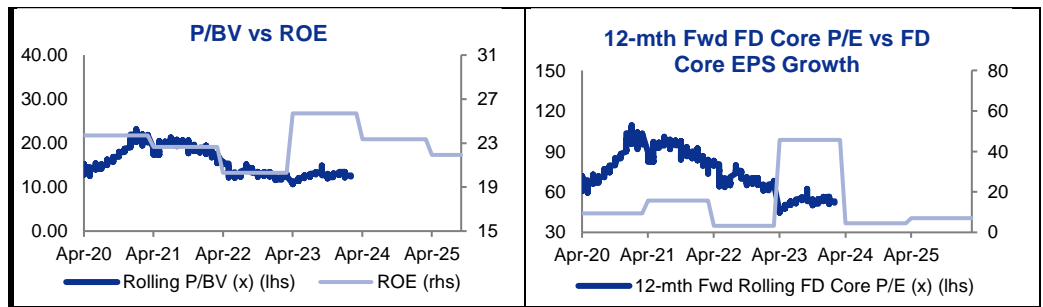
Y/E Mar (Rs. m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net Sales	1,17,375	1,16,439	-0.8	1,26,929	1,25,721	-1.0	1,37,681	1,36,378	-0.9
EBITDA	20,302	20,137	-0.8	21,254	21,047	-1.0	22,617	22,398	-1.0
EBITDA Margin (%)	17.3	17.3	0 bp	16.7	16.7	0 bp	16.4	16.4	0 bp
APAT	12,641	12,518	-1.0	13,238	13,084	-1.2	14,162	13,999	-1.1
EPS	10.8	10.7	-1.0	11.4	11.2	-1.2	12.1	12.0	-1.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: BRGR's one-year forward P/E trades close to -1SD



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	87,618	105,678	116,439	125,721	136,378
Gross Profit	33,327	38,373	45,675	49,208	52,409
Operating EBITDA	13,311	14,872	20,137	21,047	22,398
Depreciation And Amortisation	(2,265)	(2,640)	(3,112)	(3,324)	(3,495)
Operating EBIT	11,046	12,232	17,025	17,723	18,902
Financial Income/(Expense)	139	(477)	(53)	11	64
Pretax Income/(Loss) from Assoc.	33	(132)	(90)	(90)	(90)
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	11,217	11,623	16,882	17,644	18,876
Exceptional Items					
Pre-tax Profit	11,217	11,623	16,882	17,644	18,876
Taxation	(2,893)	(3,019)	(4,364)	(4,560)	(4,877)
Exceptional Income - post-tax					
Profit After Tax	8,324	8,604	12,518	13,084	13,999
Minority Interests	(1)	(10)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,322	8,594	12,518	13,084	13,999
Recurring Net Profit	8,322	8,594	12,518	13,084	13,999
Fully Diluted Recurring Net Profit	8,322	8,594	12,518	13,084	13,999

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	13,311	14,872	20,137	21,047	22,398
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,378)	(2,172)	2,034	(3,009)	491
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(507)	(992)	(591)	(576)	(576)
Tax Paid	(2,893)	(3,019)	(4,364)	(4,560)	(4,877)
Cashflow From Operations	4,532	8,688	17,216	12,903	17,437
Capex	(8,801)	(9,072)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,859	1,028	539	587	640
Cash Flow From Investing	(6,941)	(8,044)	(1,961)	(1,913)	(1,860)
Debt Raised/(repaid)	3,798	1,754	(6,747)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,524)	(3,892)	(5,551)	(5,759)	(6,139)
Preferred Dividends					
Other Financing Cashflow	754	881	299	104	104
Cash Flow From Financing	1,028	(1,256)	(12,000)	(5,655)	(6,034)
Total Cash Generated	(1,381)	(613)	3,255	5,335	9,542
Free Cashflow To Equity	1,388	2,398	8,507	10,989	15,576
Free Cashflow To Firm	(1,902)	1,636	15,846	11,565	16,152

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,002	2,977	6,231	11,566	21,108
Total Debtors	10,537	12,431	13,340	14,841	15,779
Inventories	23,158	23,191	21,371	22,960	24,922
Total Other Current Assets	5,018	5,302	5,302	5,302	5,302
Total Current Assets	42,715	43,901	46,243	54,669	67,110
Fixed Assets	25,169	31,601	30,988	30,164	29,169
Total Investments	1,471	1,302	1,302	1,302	1,302
Intangible Assets	2,756	2,817	2,817	2,817	2,817
Total Other Non-Current Assets		41	236	266	302
Total Non-current Assets	29,395	35,760	35,343	34,548	33,590
Short-term Debt	7,332	8,466	1,719	1,719	1,719
Current Portion of Long-Term Debt					
Total Creditors	21,605	21,409	22,726	22,838	26,265
Other Current Liabilities					
Total Current Liabilities	28,937	29,875	24,444	24,557	27,984
Total Long-term Debt	2,803	3,424	3,424	3,424	3,424
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,803	3,424	3,424	3,424	3,424
Total Provisions	1,033	1,343	1,343	1,343	1,343
Total Liabilities	32,773	34,642	29,211	29,323	32,751
Shareholders Equity	39,464	45,135	52,297	59,816	67,871
Minority Interests	72	81	81	81	81
Total Equity	39,536	45,217	52,378	59,897	67,953

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	28.5%	20.6%	10.2%	8.0%	8.5%
Operating EBITDA Growth	12.0%	11.7%	35.4%	4.5%	6.4%
Operating EBITDA Margin	15.2%	14.1%	17.3%	16.7%	16.4%
Net Cash Per Share (Rs)	(5.26)	(7.65)	0.93	5.51	13.70
BVPS (Rs)	33.86	38.72	44.86	51.31	58.22
Gross Interest Cover	21.78	12.33	28.78	30.77	32.82
Effective Tax Rate	25.8%	26.0%	25.8%	25.8%	25.8%
Net Dividend Payout Ratio	42.3%	45.3%	44.3%	44.0%	43.8%
Accounts Receivables Days	43.19	39.66	40.39	40.91	40.98
Inventory Days	132.17	125.68	114.93	105.74	104.07
Accounts Payables Days	132.99	116.63	113.82	108.68	106.72
ROIC (%)	24.5%	22.7%	33.2%	33.1%	36.3%
ROCE (%)	24.7%	23.0%	29.7%	28.9%	27.4%
Return On Average Assets	12.5%	12.0%	15.6%	15.3%	14.7%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic revenue growth	28.6%	22.3%	9.7%	6.8%	7.8%
EBIDTA margins	15.2%	14.1%	17.3%	16.7%	16.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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