

India

**HOLD** (no change)

Consensus ratings\*: Buy 3 Hold 5 Sell 15

Current price:	Rs513
Target price:	Rs540
Previous target:	Rs540
Up/downside:	5.3%
InCred Research / Consensus:	4.0%
Reuters:	BRGR.NS
Bloomberg:	BRGR IN
Market cap:	US\$7,116m
	Rs598,520m
Average daily turnover:	US\$12.6m
	Rs1057.8m
Current shares o/s:	1,165.8m
Free float:	25.0%

\*Source: Bloomberg

**Key changes in this note**

- Lower FY25F EPS by 3.1%.

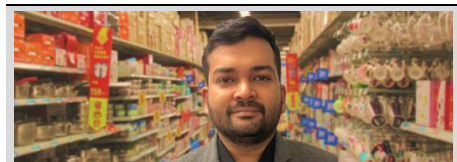


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.0)	(5.0)	(9.8)
Relative (%)	(8.5)	(6.1)	(26.3)

Major shareholders	% held
Promoter and Promoter Group	75.0
LIC	4.1
SBI	1.4

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# Berger Paints India Limited

## Weaker-than-expected performance

- Consol./standalone sales came in flat yoy, respectively, in 2QFY25. Volume growth stood at 3.6% in 2Q vs. 7%/9% in 2QFY24/1QFY25, respectively.
- Management expects double-digit volume growth by FY25F (7.8% in 1HFY25). Margins are expected to remain under pressure (15-17% guided range).
- Retain our negative stance on the industry and maintain our HOLD rating on Berger Paints with an unchanged target price of Rs540 (47x Sep 2026F EPS).

### Weak delivery on sales as well as volume growth fronts

2QFY25 consolidated net sales of Berger Paints India (Berger) came in flat yoy at Rs27.7bn (our estimate: Rs28.6bn, a 2% miss). Standalone sales at Rs24.3bn were down 0.4% yoy. Volume growth stood at 3.6% in 2Q, implying a volume/value gap of 4%. Volume growth in 1HFY25 stood at 7.8%. The premium range and luxury offerings grew in double digits while volume growth at the mass-end (putty, primers and enamels) declined or were flat. Construction chemicals (CC) and waterproofing business performed well. Berger has now launched around 85% of its products under the CC category, with the remaining gap expected to be filled soon. Differentiated products saw double-digit growth and now account for 20%+ of overall domestic sales. In terms of regions, East and South India posted a recovery and are expected to maintain their momentum. The Hindi belt performed reasonably well in Oct 2024, as per management. Some regions in Gujarat, Andhra Pradesh and Telangana are still under pressure. Distribution expansion continued in an aggressive manner, adding 2,200+/2,000+ touch points/tinting machines during the quarter. Within the industrial segment, protective coatings saw double-digit/mid-single digit volume/value growth while the automotive segment was flat due to weak demand.

### Investments in key urban markets to improve market share

Berger is hiring additional manpower in key urban markets like Bengaluru, Mumbai, Pune, Hyderabad, etc. since Aug 2024 to strengthen its position in these regions and improve brand visibility and penetration. While Berger's overall market share is 20%, in these markets it has a c.10% market share (Asian Paints is dominant in these markets). These markets have a Rs150bn potential, of which Berger is at Rs15bn and will invest in driving distribution, contractors/painters, relationship with builders/housing societies, etc. which require a different go-to-market strategy. Berger is targeting a 15% market share in phase-1 of this initiative, and management expects the results to be visible from 2HFY25F.

### Retain HOLD rating with an unchanged target price of Rs540

While we have a negative view on the paint industry due to heightened competitive intensity, Berger's initiatives to increase its presence in urban markets should aid in gradual growth and allow it to gain market share gradually. We reiterate our HOLD rating on Berger with an unchanged target price of Rs540 (47x Sep 2026F EPS). Key downside risk: Market share loss due to aggressive roll out by a new entrant. Upside risk: Faster-than-expected sales growth.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	105,678	111,989	117,571	128,313	141,026
Operating EBITDA (Rsm)	14,872	18,613	18,912	20,251	21,343
Net Profit (Rsm)	8,594	11,678	11,844	12,958	13,717
Core EPS (Rs)	7.4	10.0	10.2	11.1	11.8
Core EPS Growth	3.3%	35.9%	1.4%	9.4%	5.9%
FD Core P/E (x)	69.64	51.25	50.53	46.19	43.63
DPS (Rs)	2.9	3.5	3.6	3.9	4.1
Dividend Yield	0.65%	0.80%	0.80%	0.88%	0.92%
EV/EBITDA (x)	40.85	32.28	31.63	29.38	27.78
P/FCFE (x)	249.56	131.29	84.57	74.03	83.41
Net Gearing	19.7%	4.0%	(0.8%)	(5.3%)	(7.5%)
P/BV (x)	13.26	11.13	9.81	8.69	7.75
ROE	20.3%	23.6%	20.6%	20.0%	18.8%
% Change In Core EPS Estimates			(3.10%)	(0.58%)	0.22%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Weaker-than-expected performance

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
<b>Revenue</b>	<b>27,673</b>	<b>30,910</b>	<b>27,746</b>	0.3	-10.2	<b>57,968</b>	<b>58,656</b>	1.2
<b>Expenditure</b>	<b>22,937</b>	<b>25,686</b>	<b>23,404</b>	2.0	-8.9	<b>47,664</b>	<b>49,090</b>	3.0
Consumption of RM	16,294	18,585	16,175	-0.7	-13.0	34,525	34,760	0.7
as % of sales	58.9	60.1	58.3			59.6	59.3	
Employee Costs	1,902	1,922	2,211	16.2	15.0	3,571	4,134	15.7
as % of sales	6.9	6.2	8.0			6.2	7.0	
Other Expenditure	4,740	5,179	5,018	5.9	-3.1	9,568	10,197	6.6
as % of sales	17.1	16.8	18.1			16.5	17.4	
<b>EBITDA</b>	<b>4,737</b>	<b>5,224</b>	<b>4,342</b>	-8.3	-16.9	<b>10,304</b>	<b>9,566</b>	-7.2
Depreciation	829	872	890	7.4	2.0	1,611	1,762	9.4
<b>EBIT</b>	<b>3,908</b>	<b>4,352</b>	<b>3,452</b>	-11.7	-20.7	<b>8,693</b>	<b>7,804</b>	-10.2
Other Income	153	363	211	38.1	-41.9	289	574	99.0
Interest	211	152	170	-19.3	12.1	408	322	-21.1
<b>PBT</b>	<b>3,850</b>	<b>4,564</b>	<b>3,493</b>	-9.3	-23.5	<b>8,574</b>	<b>8,057</b>	-6.0
Total Tax	967	1,120	883	-8.7	-21.2	2,180	2,002	-8.1
<b>Adjusted PAT</b>	<b>2,883</b>	<b>3,444</b>	<b>2,610</b>	-9.5	-24.2	<b>6,394</b>	<b>6,055</b>	-5.3
(Profit)/Loss from JVs/Ass. /MI	-33	-92	-86	-	-	-66	-178	-
<b>APAT after MI</b>	<b>2,916</b>	<b>3,536</b>	<b>2,697</b>	-7.5	-23.7	<b>6,460</b>	<b>6,232</b>	-3.5
Extraordinary Items	0	0	0	-	-	0	0	-
<b>Reported PAT</b>	<b>2,916</b>	<b>3,536</b>	<b>2,697</b>	-7.5	-23.7	<b>6,460</b>	<b>6,232</b>	-3.5
<b>Adjusted EPS</b>	<b>2.5</b>	<b>3.0</b>	<b>2.3</b>	-7.5	-23.7	<b>5.5</b>	<b>5.3</b>	-3.5
<b>Margins (%)</b>	<b>2QFY24</b>	<b>1QFY25</b>	<b>2QFY25</b>	<b>(bp)</b>	<b>(bp)</b>	<b>1HFY24</b>	<b>1HFY25</b>	<b>(bp)</b>
Gross margin	41.1	39.9	41.7	60	180	40.4	40.7	30
EBITDA	17.1	16.9	15.6	-150	-130	17.8	16.3	-150
EBIT	14.1	14.1	12.4	-170	-160	15.0	13.3	-170
EBT	13.9	14.8	12.6	-130	-220	14.8	13.7	-110
PAT	10.5	11.4	9.7	-80	-170	11.1	10.6	-50
Effective Tax Rate	25.1	24.5	25.3	20	70	25.4	24.8	-60

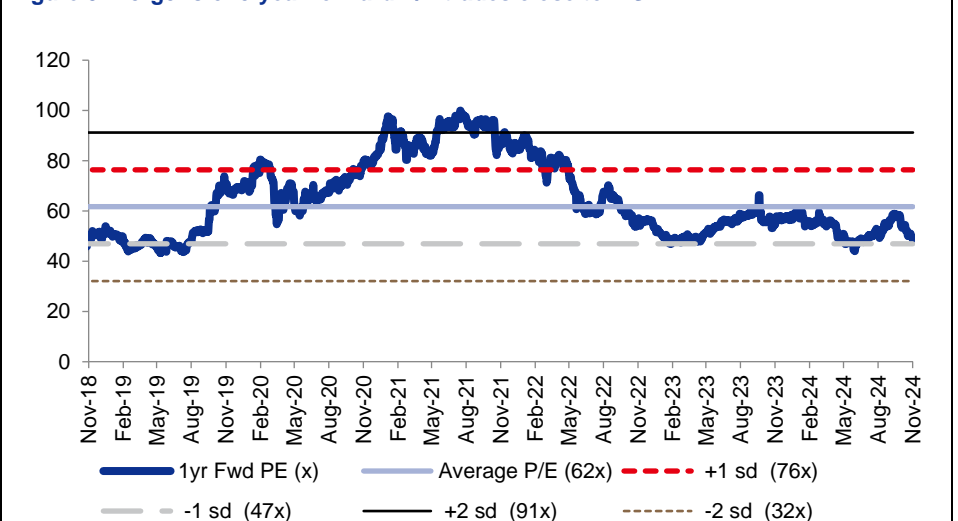
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net Sales	1,22,640	1,17,571	-4.1	1,33,057	1,28,313	-3.6	1,45,393	1,41,026	-3.0
EBITDA	19,732	18,912	-4.2	21,004	20,251	-3.6	22,005	21,343	-3.0
EBITDA Margin (%)	16.1	16.1	0bp	15.8	15.8	0bp	15.1	15.1	0bp
APAT	12,223	11,844	-3.1	13,034	12,958	-0.6	13,688	13,717	0.2
EPS	10.5	10.2	-3.1	11.2	11.1	-0.6	11.7	11.8	0.2

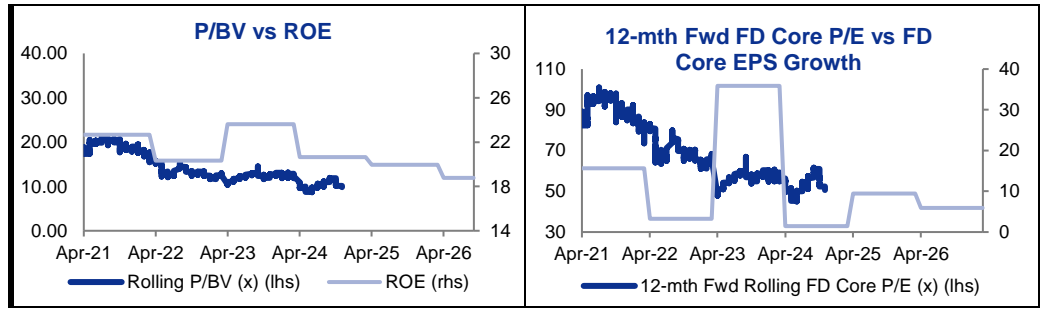
SOURCES: INCRED RESEARCH, COMPANY REPORTS

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



SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>105,678</b>	<b>111,989</b>	<b>117,571</b>	<b>128,313</b>	<b>141,026</b>
<b>Gross Profit</b>	<b>38,373</b>	<b>45,529</b>	<b>47,790</b>	<b>51,264</b>	<b>55,510</b>
<b>Operating EBITDA</b>	<b>14,872</b>	<b>18,613</b>	<b>18,912</b>	<b>20,251</b>	<b>21,343</b>
Depreciation And Amortisation	(2,640)	(3,309)	(3,521)	(3,712)	(3,890)
<b>Operating EBIT</b>	<b>12,232</b>	<b>15,304</b>	<b>15,392</b>	<b>16,539</b>	<b>17,453</b>
Financial Income/(Expense)	(477)	(146)	80	222	239
Pretax Income/(Loss) from Assoc.	(132)	410	190	200	250
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>11,623</b>	<b>15,569</b>	<b>15,662</b>	<b>16,961</b>	<b>17,941</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>11,623</b>	<b>15,569</b>	<b>15,662</b>	<b>16,961</b>	<b>17,941</b>
Taxation	(3,019)	(3,870)	(3,818)	(4,003)	(4,224)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>8,604</b>	<b>11,699</b>	<b>11,844</b>	<b>12,958</b>	<b>13,717</b>
Minority Interests	(10)	(21)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>8,594</b>	<b>11,678</b>	<b>11,844</b>	<b>12,958</b>	<b>13,717</b>
Recurring Net Profit	8,594	11,678	11,844	12,958	13,717
<b>Fully Diluted Recurring Net Profit</b>	<b>8,594</b>	<b>11,678</b>	<b>11,844</b>	<b>12,958</b>	<b>13,717</b>

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>14,872</b>	<b>18,613</b>	<b>18,912</b>	<b>20,251</b>	<b>21,343</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,172)	793	(5,598)	(5,886)	(7,682)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(992)	(783)	(633)	(552)	(602)
Tax Paid	(3,019)	(3,870)	(3,818)	(4,003)	(4,224)
<b>Cashflow From Operations</b>	<b>8,688</b>	<b>14,754</b>	<b>8,864</b>	<b>9,811</b>	<b>8,835</b>
Capex	(9,072)	(5,532)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,028	(308)	713	774	841
<b>Cash Flow From Investing</b>	<b>(8,044)</b>	<b>(5,840)</b>	<b>(1,787)</b>	<b>(1,726)</b>	<b>(1,659)</b>
Debt Raised/(repaid)	1,754	(4,355)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,892)	(4,769)	(4,817)	(5,279)	(5,528)
Preferred Dividends					
Other Financing Cashflow	881	2,518	384	394	444
<b>Cash Flow From Financing</b>	<b>(1,256)</b>	<b>(6,605)</b>	<b>(4,432)</b>	<b>(4,885)</b>	<b>(5,084)</b>
Total Cash Generated	(613)	2,309	2,645	3,200	2,093
<b>Free Cashflow To Equity</b>	<b>2,398</b>	<b>4,559</b>	<b>7,077</b>	<b>8,084</b>	<b>7,176</b>
<b>Free Cashflow To Firm</b>	<b>1,636</b>	<b>9,696</b>	<b>7,710</b>	<b>8,637</b>	<b>7,778</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	2,977	5,366	8,011	11,210	13,303
Total Debtors	12,431	13,020	14,316	18,458	22,325
Inventories	23,191	21,797	26,740	29,181	34,915
Total Other Current Assets	5,302	4,277	4,277	4,277	4,277
<b>Total Current Assets</b>	<b>43,901</b>	<b>44,460</b>	<b>53,344</b>	<b>63,126</b>	<b>74,819</b>
Fixed Assets	31,601	33,824	32,803	31,591	30,201
Total Investments	1,302	1,917	1,917	1,917	1,917
Intangible Assets	2,817	3,047	3,047	3,047	3,047
Total Other Non-Current Assets	41	431	319	416	497
<b>Total Non-current Assets</b>	<b>35,760</b>	<b>39,218</b>	<b>38,086</b>	<b>36,971</b>	<b>35,662</b>
Short-term Debt	8,466	3,050	3,050	3,050	3,050
Current Portion of Long-Term Debt					
Total Creditors	21,409	20,809	21,339	22,133	24,133
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>29,875</b>	<b>23,859</b>	<b>24,389</b>	<b>25,183</b>	<b>27,183</b>
Total Long-term Debt	3,424	4,485	4,485	4,485	4,485
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>3,424</b>	<b>4,485</b>	<b>4,485</b>	<b>4,485</b>	<b>4,485</b>
Total Provisions	1,343	1,444	1,444	1,444	1,444
<b>Total Liabilities</b>	<b>34,642</b>	<b>29,788</b>	<b>30,318</b>	<b>31,112</b>	<b>33,112</b>
Shareholders Equity	45,135	53,790	61,012	68,885	77,269
Minority Interests	81	102	102	102	102
<b>Total Equity</b>	<b>45,217</b>	<b>53,892</b>	<b>61,114</b>	<b>68,987</b>	<b>77,371</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	20.6%	6.0%	5.0%	9.1%	9.9%
Operating EBITDA Growth	11.7%	25.2%	1.6%	7.1%	5.4%
Operating EBITDA Margin	14.1%	16.6%	16.1%	15.8%	15.1%
Net Cash Per Share (Rs)	(7.65)	(1.86)	0.41	3.15	4.95
BVPS (Rs)	38.72	46.14	52.33	59.09	66.28
Gross Interest Cover	12.33	19.56	24.33	29.96	28.98
Effective Tax Rate	26.0%	24.9%	24.4%	23.6%	23.5%
Net Dividend Payout Ratio	45.3%	40.8%	40.7%	40.7%	40.3%
Accounts Receivables Days	39.66	41.48	42.43	46.61	52.78
Inventory Days	125.68	123.54	126.94	132.46	136.79
Accounts Payables Days	116.63	115.93	110.23	102.97	98.73
ROIC (%)	22.7%	27.5%	25.6%	25.5%	24.5%
ROCE (%)	23.0%	26.0%	23.8%	22.9%	21.8%
Return On Average Assets	12.0%	14.5%	13.4%	13.3%	12.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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#### Recommendation Framework

<b>Stock Ratings</b>	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.
<i>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.</i>	
<b>Sector Ratings</b>	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.
<b>Country Ratings</b>	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.