Berger Paints

Sell

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

RM inflation dents performance

Berger's Q2FY19 revenues came in line with our estimate but EBITDA and APAT came below. The company posted better performance compared to APL on key counts – domestic sales growth ~16% and better volume growth (~15% vs 9%). We believe that the demand in the system is continuously improving and should sustain with better urban and rural demand. As 'feel good' factor remains with better economic conditions, mainly in the rural markets, improved macros and better monsoon would result in pent-up demand. Being the second largest player in the domestic decorative paint industry is likely to benefit more due to (1) rising distribution reach (2) strong presence in urban markets and (3) attractive product offering in all categories (4) Revision in GST rates. We expect Berger to report double digit volume growth but the margins would remain under pressure due to increase RM and currency depreciation. We have revised our estimates downward to factor in higher than expected increase in RM. Considering recent run up in the stock price and revision in earnings estimate we are downgrading the rating to SELL with TP of ₹ 286 (45x FY20E).

Lower margins impacted profitability

Revenues (conso) grew by 16.3% YoY to ₹ 14.9bn, came in line with our estimate. Standalone revenues were up 15.6% at ₹ 13.3bn (implied volume growth of ~15%) and subsidiary business witnessed 21.7% YoY increase in revenues. Primary analysis suggests that the volume growth was better than APL (~10-11%). EBITDA increased by 3.9% YoY at ₹ 2.1bn, while EBITDA margins contracted by 170bps YoY to 13.9%. A 420bps increase in RM was partially offset by 40/220bps decline in employee/other expenses. EBITDA and EBITDA margins came below our estimate. APAT grew 5.3% YoY to ₹ 1.2bn – came below our estimate.

Berger is gaining 50-100bps market share annually in past 4-5 years. New and innovative launches would abet gain market share. We believe the company has lower penetration compared to leader which has a higher scope for further growth.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	14,901	12,817	16.3	14,830	0.5
Total Expense	12,833	10,826	18.5	12,560	2.2
EBITDA	2,068	1,991	3.9	2,270	(8.9)
Depreciation	336	306	10.0	340	(1.1)
EBIT	1,732	1,685	2.7	1,930	(10.3)
Other Income	120	101	18.7	164	(26.9)
Interest	79	76	3.7	38	106.0
EBT	1,773	1,711	2.7	2,056	(13.8)
Tax	597	622	(4.1)	715	(16.6)
RPAT	1,173	1,113	5.3	1,349	(13.0)
APAT	1,365	1,421	(4.0)	1,378	(0.9)
			(bps)		(bps)
Gross Margin (%)	38.7	42.9	(418)	39.5	(75)
EBITDA Margin (%)	13.9	15.5	(166)	15.3	(143)
NPM (%)	7.9	8.7	(82)	9.1	(122)
Tax Rate (%)	33.6	36.4	(272)	34.8	(114)
EBIT Margin (%)	11.6	13.1	(153)	13.0	(139)

CMP	₹ 301
Target / Downside	₹ 286 / 5%
BSE Sensex	34,951
NSE Nifty	10,524

Scrip Details

Equity / FV	₹ 971mn / ₹ 1
Market Cap	₹ 292bn
	US$ 4bn
52-week High/Low	₹ 350/₹ 232
Avg. Volume (no)	1,068,280
NSE Symbol	BERGEPAINT
Bloomberg Code	BRGR IN

Shareholding Pattern Sep'18(%)

Promoters	75.0
MF/Banks/FIs	9.1
FIIs	5.5
Public / Others	10.4

Valuation (x)

	FY18A	FY19E	FY20E
P/E	63.4	57.9	46.2
EV/EBITDA	36.2	33.9	27.8
ROE (%)	22.5	21.6	23.9
RoACE (%)	17.5	16.8	19.4

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	51,657	60,379	69,573
EBITDA	8,070	8,567	10,355
PAT	4,608	5,044	6,325
EPS (₹)	4.7	5.2	6.5

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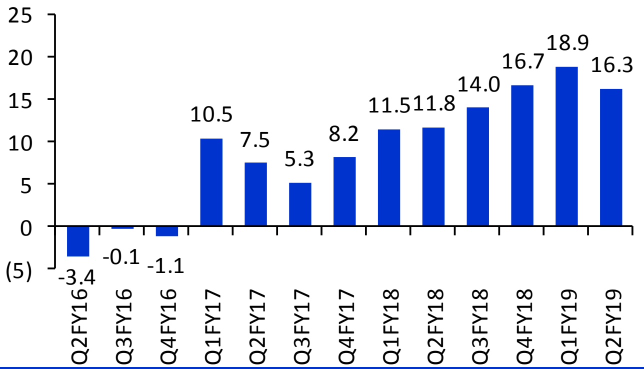
DOLAT CAPITAL

Exhibit 1: Change in estimate

₹ Mn	FY19E			FY20E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	60,379	60,531	(0.3)	69,573	69,728	(0.2)
EBITDA	8,567	9,919	(13.6)	10,355	10,652	(2.8)
EBITDA Margin (%)	14.2	16.4	(220)	14.9	15.3	(40)
PAT	5,044	5,935	(15.0)	6,325	6,542	(3.3)
EPS (₹)	5.2	6.1	(15.0)	6.5	6.7	(3.3)

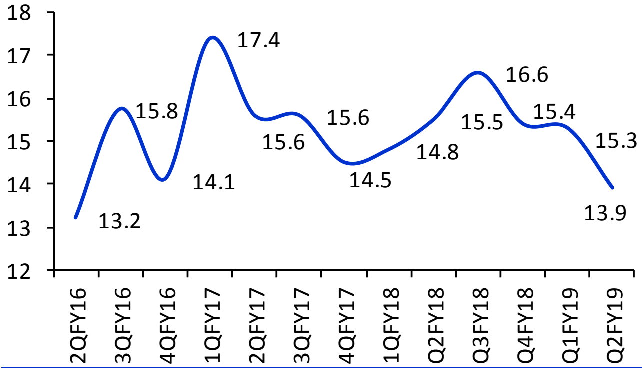
Source: DART, Company

Exhibit 2: Revenue growth (YoY%)



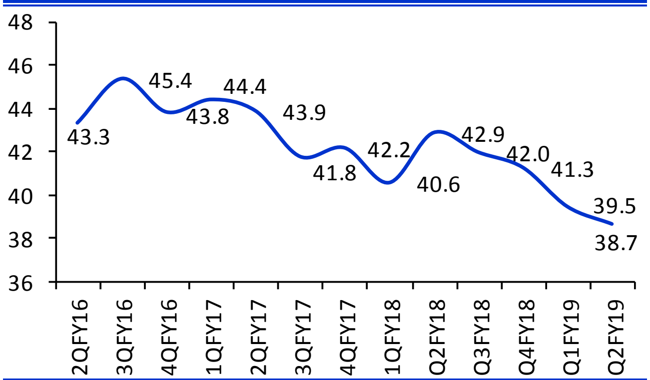
Source: DART, Company

Exhibit 3: EBITDA margin (%)



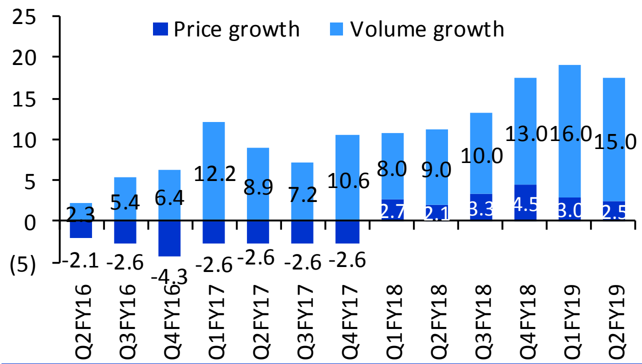
Source: DART, Company

Exhibit 4: Gross margin (%)



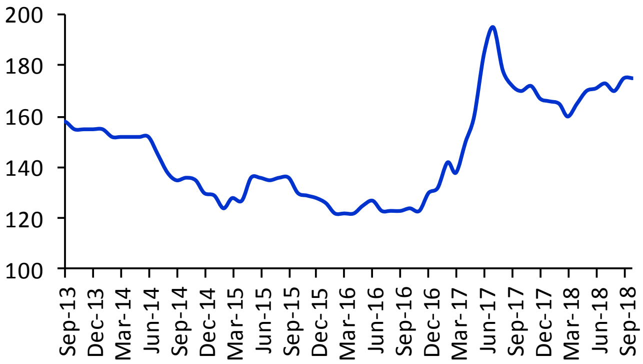
Source: DART, Company

Exhibit 5: Volume and Price Growth (YoY%)



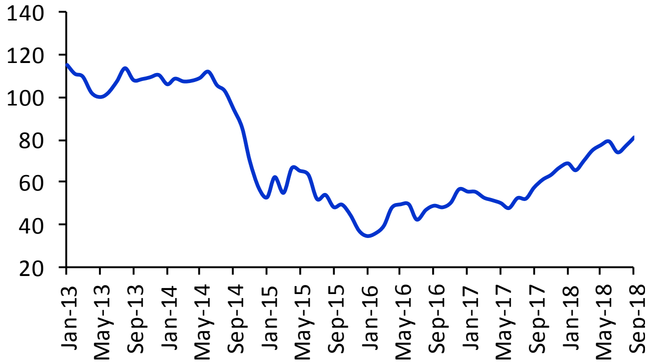
Source: DART, Company

Exhibit 6: Trend in Titanium Dioxide Price (₹/KG)



Source: DART, Company

Exhibit 7: Trend in Brent Price (USD)



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	**45,523**	**51,657**	**60,379**	**69,573**
Total Expense	**38,337**	**43,587**	**51,813**	**59,219**
COGS	25,923	30,100	36,744	41,973
Employees Cost	3,067	3,566	4,110	4,463
Other expenses	9,347	9,922	10,959	12,782
EBIDTA	**7,186**	**8,070**	**8,567**	**10,355**
Depreciation	1,081	1,242	1,346	1,420
EBIT	**6,105**	**6,828**	**7,221**	**8,935**
Interest	162	246	281	285
Other Income	545	459	538	562
Exc. / E.O. items	442	0	0	0
EBT	**6,930**	**7,041**	**7,477**	**9,212**
Tax	2,294	2,439	2,553	3,007
RPAT	4,737	4,608	5,044	6,325
Minority Interest	0	0	0	0
Profit/Loss share of associates	**101**	**6**	**120**	**120**
APAT	**4,295**	**4,608**	**5,044**	**6,325**

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	971	971	971	971
Minority Interest	0	0	0	0
Reserves & Surplus	18,045	20,974	23,780	27,298
Net Worth	**19,016**	**21,945**	**24,751**	**28,269**
Total Debt	4,062	4,222	4,022	3,822
Net Deferred Tax Liability	807	832	832	832
Total Capital Employed	**23,885**	**26,999**	**29,485**	**32,683**
Applications of Funds				
Net Block	**11,360**	**12,672**	**13,326**	**13,406**
CWIP	622	972	972	972
Investments	1,049	1,055	1,055	1,055
Current Assets, Loans & Advances	**20,674**	**23,706**	**26,663**	**31,811**
Inventories	9,355	10,073	11,023	12,321
Receivables	5,781	6,924	7,343	8,365
Cash and Bank Balances	1,025	2,049	3,638	6,466
Loans and Advances	762	2,274	2,274	2,274
Other Current Assets	79	109	109	109
Less: Current Liabilities & Provisions	**9,820**	**11,405**	**12,531**	**14,561**
Payables	6,993	8,517	12,081	14,111
Other Current Liabilities	2,827	2,888	450	450
sub total				
Net Current Assets	10,854	12,300	14,132	17,250
Total Assets	**23,885**	**26,999**	**29,485**	**32,683**

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	43.1	41.7	39.1	39.7
EBIDTA Margin	15.8	15.6	14.2	14.9
EBIT Margin	13.4	13.2	12.0	12.8
Tax rate	33.1	34.6	34.1	32.6
Net Profit Margin	10.4	8.9	8.4	9.1
(B) As Percentage of Net Sales (%)				
COGS	56.9	58.3	60.9	60.3
Employee	6.7	6.9	6.8	6.4
Other	20.5	19.2	18.1	18.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.1
Interest Coverage	37.6	27.8	25.7	31.3
Inventory days	75	71	67	65
Debtors days	46	49	44	44
Average Cost of Debt	4.3	5.9	6.8	7.3
Payable days	56	60	73	74
Working Capital days	87	87	85	90
FA T/O	4.0	4.1	4.5	5.2
(D) Measures of Investment				
AEPS (₹)	4.4	4.7	5.2	6.5
CEPS (₹)	5.5	6.0	6.6	8.0
DPS (₹)	1.2	2.1	2.3	2.9
Dividend Payout (%)	27.2	44.4	44.4	44.4
BVPS (₹)	19.6	22.6	25.5	29.1
RoANW (%)	27.4	22.5	21.6	23.9
RoACE (%)	18.7	17.5	16.8	19.4
RoAIC (%)	29.3	28.6	28.4	34.3
(E) Valuation Ratios				
CMP (₹)	301	301	301	301
P/E	68.1	63.4	57.9	46.2
Mcap (₹ Mn)	292,320	292,320	292,320	292,320
MCap/ Sales	15.4	13.3	11.8	10.3
EV	291,684	292,217	290,428	287,400
EV/Sales	6.4	5.7	4.8	4.1
EV/EBITDA	40.6	36.2	33.9	27.8
P/BV	15.4	13.3	11.8	10.3
Dividend Yield (%)	0.4	0.7	0.8	1.0
(F) Growth Rate (%)				
Revenue	7.8	13.5	16.9	15.2
EBITDA	11.4	12.3	6.2	20.9
EBIT	11.8	11.8	5.8	23.7
PBT	25.2	1.6	6.2	23.2
APAT	15.9	7.3	9.5	25.4
EPS	15.9	7.3	9.5	25.4

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	4,107	4,726	6,309	7,620
CFI	(3,590)	(1,571)	(2,000)	(1,500)
CFF	(546)	(2,131)	(2,720)	(3,292)
FCFF	1,463	1,765	4,309	6,120
Opening Cash	1,053	1,025	2,049	3,638
Closing Cash	1,025	2,049	3,638	6,466

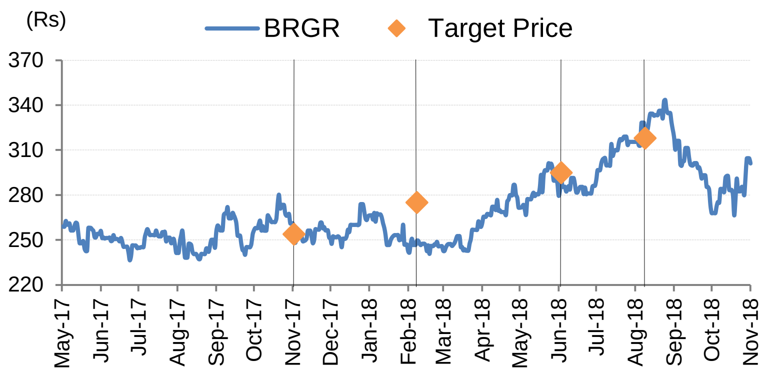
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-17	Reduce	254	256
Feb-18	Accumulate	275	249
Jun-18	Reduce	295	292
Aug-18	Reduce	318	321

*Price as on Recommendation Date

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