

# Berger Paints

**SELL**

Sector: Paints /Mid-Cap | Earnings Update – 4QFY20

26 June 2020

**Background:** Berger Paints is the second largest decorative paint company in India. The Company operates seven manufacturing facilities spread across India, and four overseas manufacturing facilities. The company has second largest distribution network of ~11,500 active dealers and ~12,000 tinting machines. Berger has a strong presence in East and North India, which accounts for 60% of its distribution network while South & West India accounts for 40% of distribution network. Company derives ~80% of revenue from decorative paints and the rest from industrial paints of which Automotives accounts for 8%, powder coating accounts for 2% and other industries accounts for 10%. It has brands like Berger Silk, Berger Rangoli, Berger Illusions, Berger Weather Coat and Jadoo Enamel.

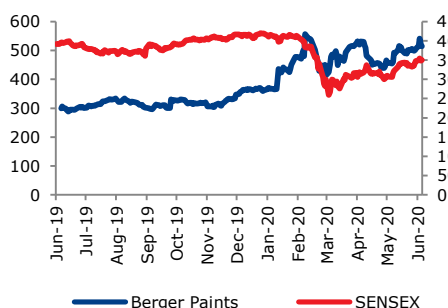
Sensex	35,098
Nifty	10,364
Price	₹ 523
Target Price (12 months)	₹ 393
Recommendation	SELL

52 Week High/Low	₹ 597/300
Bloomberg / Reuters	BRGR IN /BRGR.BO
Equity (shares in mn)	971.2
Mkt. Cap in mn	₹ 570,106/ \$ 8106.2
Avg. Daily Vol. ('000)	1976.9
Avg. Daily Vol. (mn)	₹ 1160.4 / \$ 16.5

Shareholding	Mar 19	Dec 19	Mar 20
Promoters (%)	75.0	75.0	75.0
FII (%)	5.5	8.0	7.8
DII (%)	8.2	6.8	6.8
Others (%)	11.2	10.2	10.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	63.7	67.8	73.2
EBITDA	10.6	11.6	12.9
Adj PAT	6.6	7.2	8.3
Adj EPS*	6.8	7.4	8.5
% growth	33.3	8.1	15.2
PE	76.4	70.7	61.4
P/ BV	17.8	15.5	13.5
EV/EBITDA	48.1	43.5	38.9
EV/Sales	8.0	7.5	6.9
Div Yield (%)	0.5	0.5	0.6
ROE (%)	24.9	23.4	23.6
Net Debt/Equity	0.1	-0.1	-0.1

Performance(%)	1M	3M	12M
Berger Paints	12.4	54.1	71.4
SENSEX	13.1	-16.1	-11.6



## Muted performance, given challenging business environment; LT demand drivers remain intact though valuations remain unjustified

- Berger's 4QFY20 consolidated sales, EBITDA and net profit declined by 8.0%, 1.6% and 7.7% to ₹13.5bn, ₹2.1bn and ₹1.0bn respectively. Revenue and profit performance both were below our estimates. We have further revised our estimates downwards considering the muted volume growth in the last 3 months and overall pressures on the topline due to macro-economic challenges.
- As per the management, protective paints, segment where berger is the market leader has taken a sizeable hit as government projects have come to a standstill. Although they had significant orders from public sector utilities, it remains to be seen when these orders will be finalized by the government, looking at the current situation with Covid-19 cases increasing day by day, and there is a large probability that most of these orders will be either modified and reduced or simply cancelled with budget constraints.
- Another segment that looks to be in trouble is the automotive and general category which accounts for ~8% of the company's turnover. With the auto sector facing an unprecedented decline in sales due to the Covid-19 pandemic, this segment will continue to be under pressure until the third quarter of FY21.
- The company enjoyed some cost relief in the first few months of Q4 when crude oil prices fell sharply; however the subsequent appreciation of dollar index has negated the benefits of lower crude prices, adding more pressure on the company's margins. Incidentally, a call on "product pricing" is likely to be taken in 2-3 months, "or before", depending on how the RM prices move.
- The Company intends to continue with its capex plans worth ₹1.5-1.6bn; including the construction of the Jejuri (Pune) and Lucknow plants and other "regular maintenance capex" at existing facilities. Construction of the Lucknow unit is likely to begin in November or December, while "work on the Jejuri plant" will continue.
- Berger will also be launching a host of home-care, hygiene and sanitisation offerings, including disinfectant sprays, between July and August. New products, including an "anti-bacterial and anti-virus paint" and hand sanitisers, have already been launched.

**Valuation:** Valuation premium that Berger Paints has been commanding over Asian Paints (29%) in recent times remain unjustified. Asian Paints is the market leader in the Indian decorative paints market with >50% share amongst organized players. Berger is one-third Asian Paints' size. In our view this marginal out performance do not justify such high premium. At CMP of ₹587, the stock is trading at 70.7x FY21E and 61.4x FY22E earnings. We are valuing the company at 46x FY21E EPS to arrive at a target price of ₹393 and retain our **SELL** rating on the stock.

**Risks:** Company's inability to pass on the cost increases on a timely basis, leading to crunch in margins, volatility in crude oil prices and adverse exchange rate movements.

## Results Summary 4QFY20

Y/E March (INR bn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	13,548	14,721	-8.0%	16,959	-20.1%
EBITDA	2,084	2,117	-1.6%	2,963	-29.7%
Depreciation	493	346	42.5%	483	2.2%
Other Income	167	165	1.1%	143	16.8%
PBT	1,617	1,839	-12.1%	2,496	-35.2%
Tax	560	721	-22.3%	637	-12.1%
PAT	1,032	1,118	-7.7%	1,819	-43.3%
Adjusted PAT	1,032	1,118	-7.7%	1,819	-43.3%
EBITDA Margin	1,018	1,093	-6.9%	1,786	-43.0%
Tax Incidence	15.4%	14.4%	1.00	17.5%	
Adj PAT Margin	34.7%	39.2%	-4.55	25.5%	

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