

Sell

GM continues to remain high

- Berger's Q4FY20 results came in line with our estimates, but EBITDA and APAT was a miss. Sales de-growth in domestic decorative business (-13%) was lower compared to APL (-8%). We believe that comparatively higher contribution from urban markets resulted in significant sales decline.
- Nevertheless, benign RM prices resulted in expansion in GM. RM prices are likely to remain stable in the near term.
- Going ahead, as the second-largest company in the domestic decorative paint industry, Berger is likely to benefit further, due to (1) rising distribution reach, (2) strong presence in urban markets, (3) attractive product offering in all categories, and (4) calibrated pricing.
- Government boost for the real estate sector and better monsoon are likely to augur well. Hence, we expect acceleration in volume growth for the industry in the ensuing quarters. In addition, recent fall in crude oil prices should ease pressure on margins. However, considering rich valuations, we maintain SELL with TP of Rs 440 (50x FY22E EPS).

Revenues in line, profitability below estimates

Revenues (conso) declined by 8.0% YoY to Rs 13.5bn. Standalone revenues declined 13.2% at Rs 11.7bn while subsidiary business witnessed 51% YoY increase in revenue. EBITDA declined 7.6% YoY to Rs 2.1bn- came below our estimate. EBITDA margin was stable at 15.4% as 370bps decline in RM was offset by 200/160bps increase in employee/ other expense. APAT fell 6.5% YoY to Rs 1.0bn -decline was mitigated by lower tax rates.

Mixed IB performance

Berger is involved in external insulations business in Poland. As construction activity was not impacted during Q4 in Poland, Berger posted strong growth in the region. However, UK business was impacted significantly in April-May. It witnessed signs of recovery in June as construction business is less impacted. Nepal is expected to show similar trends as that of India. FY21E is likely to be challenging for Nepal initially due to lockdown.

Going ahead, we believe that rural markets would perform better compared to urban. As Berger has lower contribution of rural compared to APL, it would report slower growth in FY21E.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	13,548	14,721	(8.0)	16,959	(20.1)
Total Expense	11,464	12,464	(8.0)	13,996	(18.1)
EBITDA	2,084	2,257	(7.6)	2,963	(29.7)
Depreciation	493	461	7.0	483	2.2
EBIT	1,591	1,796	(11.4)	2,480	(35.8)
Other Income	167	165	1.1	143	16.8
Interest	141	137	2.7	127	11.2
EBT	1,617	1,823	(11.3)	2,496	(35.2)
Tax	560	716	(21.7)	637	(12.1)
RPAT	1,032	1,104	(6.5)	1,819	(43.3)
APAT	1,032	1,104	(6.5)	1,819	(43.3)
			(bps)		(bps)
Gross Margin (%)	43.6	40.0	365	40.8	282
EBITDA Margin (%)	15.4	15.3	5	17.5	(209)
NPM (%)	7.6	7.5	12	10.7	(311)
Tax Rate (%)	34.7	39.2	(459)	25.5	912
EBIT Margin (%)	11.7	12.2	(45)	14.6	(288)

CMP	Rs 511
Target / Downside	Rs 440 / 14%
BSE Sensex	35,231
NSE Nifty	10,383

Script Details

Equity / FV	Rs 971mn / Rs 1
Market Cap	Rs 496bn
	US\$ 7bn
52-week High/Low	Rs 597/Rs 300
Avg. Volume (no)	16,16,910
NSE Symbol	BERGEPAIN
Bloomberg Code	BRGR IN

Shareholding Pattern Mar'20(%)

Promoters	75.0
MF/Banks/FIs	2.7
FII	7.8
Public / Others	14.5

Valuation (x)

	FY20A	FY21E	FY22E
P/E	75.6	79.3	58.1
EV/EBITDA	47.1	48.4	36.7
ROE (%)	25.7	22.1	26.3
RoACE (%)	21.1	18.4	22.3

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	63,658	62,111	75,947
EBITDA	10,610	10,121	13,227
PAT	6,561	6,255	8,538
EPS (Rs.)	6.8	6.4	8.8

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Exhibit 1: Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	13,548	13,748	(1.4)	
EBITDA	2,084	2,286	(8.8)	
EBITDA margin %	15.4	16.6	(120)bps	Employee costs and other expenses were higher than estimates
APAT	1,032	1,351	(23.6)	

Source: Company, DART

Exhibit 2: Change in estimate

Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	62,111	71,369	(13.0)	75,947	79,508	(4.5)
EBITDA	10,121	12,635	(19.9)	13,227	13,664	(3.2)
EBITDA Margin (%)	16.3	17.7	(140)	17.4	17.2	20
PAT	6,255	8,106	(22.8)	8,538	8,858	(3.6)
EPS (Rs)	6.44	8.3	(22.8)	8.791	9.1	(3.6)

Source: DART, Company

We have lowered our FY21E revenue estimates due to extended lockdown. In addition, FY22E revenues are revised downwards to factor in slow recovery in urban markets. We expect EBITDA margins to remain under pressure in FY21E but gradually improve in FY22E. In line with the reduction in EBITDA, we have lowered our EPS estimates.

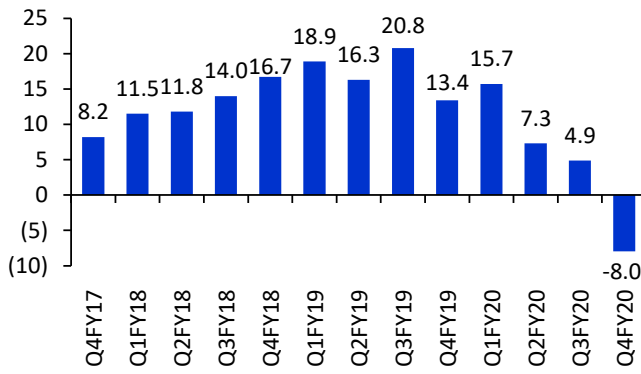
Concall Highlights

- Lower end products, which have lower margins, are growing faster than premium products.
- Some metros like Chennai, Delhi, Mumbai, Ahmedabad are taking longer to normalize. Company's decorative revenue share from these cities is lower than the industry average. Smaller towns and rural growing faster due to lesser impact of pandemic.
- Jejuri plant capex is done, commissioning was delayed due to lockdown. Company earmarked capex of Rs 2-2.5bn for FY21E.
- Price cut was limited to first three quarters of FY20, no price cut since January'20 translating to a price cut of little over 2% for overall decorative business.
- Company may consider price cut going ahead, depending on RM prices and market forces.
- Imports from China constitute 10% of total RM basket. Company has substitutes available from other countries as well, so no significant impact due to China sourcing.
- Berger is looking for cost reduction opportunities in RM, freight, maintenance, etc. It did not cut back ad expenses in Q4.
- Automotive coatings segment has remained significantly impacted. But recovery in Protective coating segment was encouraging.
- Strong performances in Q4FY20 from subsidiaries- Bolix –Poland , BJN Nepal and Saboo Coatings. Poland subsidiary was less affected than other parts of Europe and exhibited healthy growth since it is into insulation business and construction projects business which are least impacted by Covid. UK subsidiary, which is subsidiary of Polish company performance was hit hard due to Covid in April-

May. However, it is expected to recover faster given that construction business are at lower risk. Nepal mirrors Indian performance. FY21 is likely to be challenging for Nepal as lockdown impact will be higher (than India) and it will take longer for demand to pickup.

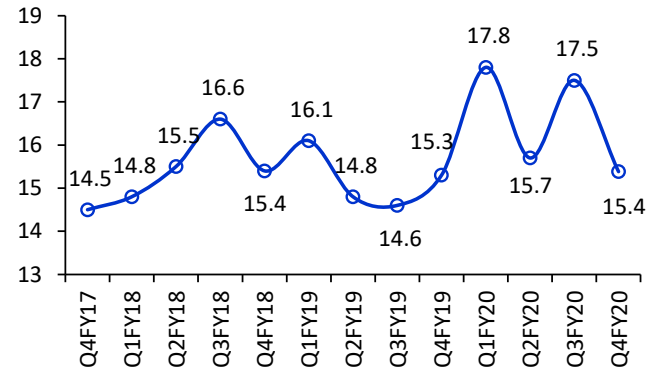
- Dividend from Nepal subsidiary and another subsidiary was to the tune of Rs 100cr in Q4FY20.
- BJN Nepal and Bolix contribute higher gross margins in core business. STP subsidiary FY20 sales amounted to ~ Rs 160-170 cr (5 months of business).
- Margins from STP business are little lower than equivalent businesses in Berger.
- Express Painting business is a modest contribution to sales, but highest growing segment. The service is present in 25-26 cities as of now.
- Company indicated that increase in cost of home painting due to post covid safety measures is marginal.
- Dealer network is growing by 10-12%.
- Management indicated that company is nearing pre covid sales levels.

Exhibit 3: Revenue growth (YoY%)



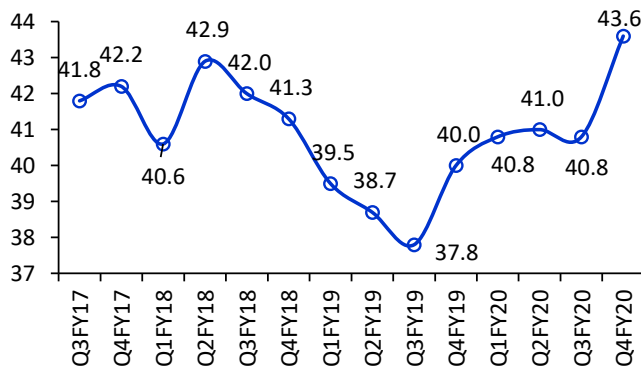
Source: DART, Company

Exhibit 4: EBITDA margin (%)



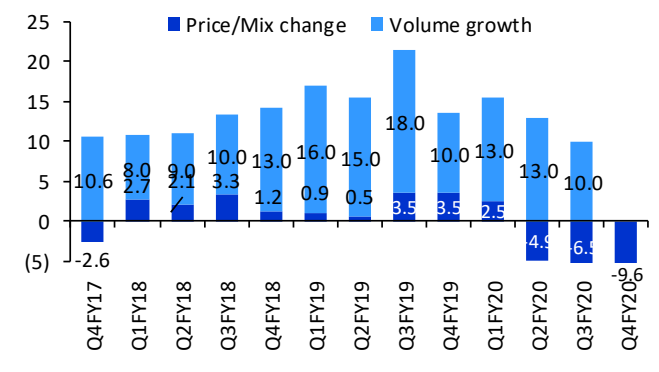
Source: DART, Company

Exhibit 5: Gross margin (%)



Source: DART, Company

Exhibit 6: Volume and Price Growth (YoY%)



Source: DART, Company (Note: Vol de-growth ~4%)

Exhibit 7: Trend in Titanium Dioxide Price (INR/KG)



Source: DART, Company

Exhibit 8: Trend in Brent Price (USD)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	60,619	63,658	62,111	75,947
Total Expense	51,263	53,048	51,990	62,720
COGS	36,996	37,258	35,982	43,440
Employees Cost	4,085	4,525	4,897	5,575
Other expenses	10,183	11,265	11,111	13,705
EBIDTA	9,355	10,610	10,121	13,227
Depreciation	1,823	1,910	1,971	2,111
EBIT	7,533	8,700	8,150	11,115
Interest	472	470	450	474
Other Income	600	685	827	991
Exc. / E.O. items	0	0	0	0
EBT	7,661	8,915	8,527	11,633
Tax	2,713	2,271	2,260	3,083
RPAT	4,939	6,561	6,255	8,538
Minority Interest	0	0	0	0
Profit/Loss share of associates	(9)	(83)	(12)	(12)
APAT	4,939	6,561	6,255	8,538

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	971	971	971	971
Minority Interest	35	71	83	95
Reserves & Surplus	23,467	25,630	29,109	33,858
Net Worth	24,438	26,601	30,081	34,829
Total Debt	7,169	7,669	7,469	7,269
Net Deferred Tax Liability	871	538	538	538
Total Capital Employed	32,512	34,879	38,170	42,731

Applications of Funds

Net Block	15,825	19,155	13,500	13,189
CWIP	1,699	1,784	1,784	1,784
Investments	1,441	1,358	1,358	1,358
Current Assets, Loans & Advances	26,491	25,991	34,651	42,530
Inventories	12,335	12,785	11,914	14,152
Receivables	6,715	7,141	6,674	8,057
Cash and Bank Balances	2,385	2,199	12,287	16,545
Loans and Advances	1,893	1,893	1,893	1,893
Other Current Assets	655	180	90	90
Less: Current Liabilities & Provisions	12,943	13,409	13,123	16,130
Payables	9,993	10,658	12,562	15,569
Other Current Liabilities	2,950	2,751	561	561
sub total				
Net Current Assets	13,547	12,583	21,528	26,400
Total Assets	32,512	34,879	38,170	42,731

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	39.0	41.5	42.1	42.8
EBIDTA Margin	15.4	16.7	16.3	17.4
EBIT Margin	12.4	13.7	13.1	14.6
Tax rate	35.4	25.5	26.5	26.5
Net Profit Margin	8.1	10.3	10.1	11.2
(B) As Percentage of Net Sales (%)				
COGS	61.0	58.5	57.9	57.2
Employee	6.7	7.1	7.9	7.3
Other	16.8	17.7	17.9	18.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.2	0.2
Interest Coverage	15.9	18.5	18.1	23.5
Inventory days	74	73	70	68
Debtors days	40	41	39	39
Average Cost of Debt	8.3	6.3	5.9	6.4
Payable days	60	61	74	75
Working Capital days	82	72	127	127
FA T/O	3.8	3.3	4.6	5.8
(D) Measures of Investment				
AEPS (Rs)	5.1	6.8	6.4	8.8
CEPS (Rs)	7.0	8.7	8.5	11.0
DPS (Rs)	2.2	3.9	2.9	3.9
Dividend Payout (%)	42.6	58.2	44.4	44.4
BVPS (Rs)	25.2	27.4	31.0	35.9
RoANW (%)	21.3	25.7	22.1	26.3
RoACE (%)	18.2	21.1	18.4	22.3
RoAIC (%)	27.4	27.7	27.8	42.7
(E) Valuation Ratios				
CMP (Rs)	511	511	511	511
P/E	100.4	75.6	79.3	58.1
Mcap (Rs Mn)	4,96,089	4,96,089	4,96,089	4,96,089
MCap/ Sales	8.2	7.8	8.0	6.5
EV	4,98,365	4,99,766	4,89,478	4,85,020
EV/Sales	8.2	7.9	7.9	6.4
EV/EBITDA	53.3	47.1	48.4	36.7
P/BV	20.3	18.6	16.5	14.2
Dividend Yield (%)	0.4	0.8	0.6	0.8
(F) Growth Rate (%)				
Revenue	17.3	5.0	(2.4)	22.3
EBITDA	15.9	13.4	(4.6)	30.7
EBIT	10.3	15.5	(6.3)	36.4
PBT	8.8	16.4	(4.3)	36.4
APAT	7.2	32.8	(4.7)	36.5
EPS	7.2	32.8	(4.7)	36.5
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	6,118	7,782	9,830	10,521
CFI	(3,600)	(3,512)	3,683	(1,800)
CFF	(2,183)	(4,456)	(3,426)	(4,463)
FCFF	2,952	3,472	13,514	8,721
Opening Cash	2,049	2,385	2,199	12,287
Closing Cash	2,385	2,199	12,287	16,545

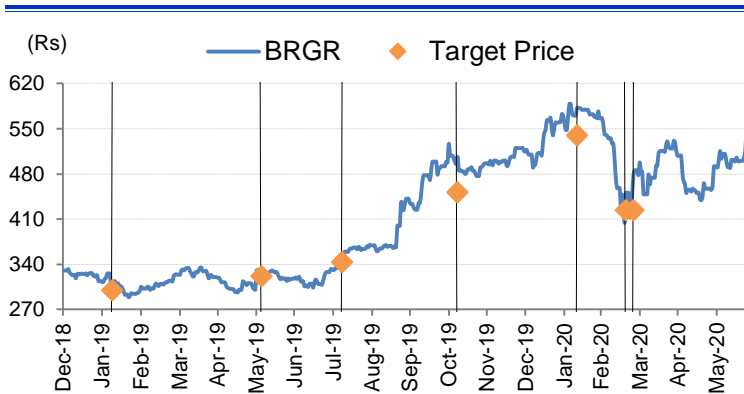
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Sell	300	308
Jun-19	Sell	322	323
Aug-19	Sell	344	349
Nov-19	Sell	452	507
Feb-20	Sell	540	582
Mar-20	Reduce	424	451
Mar-20	Sell	424	478

*Price as on recommendation date

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