

Q1FY21 result review
and TP revision

Paints

Target price: Rs540

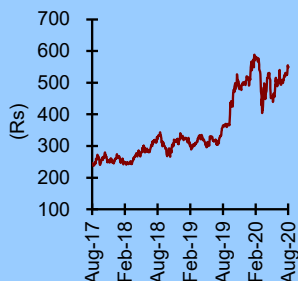
Target price revision
Rs540 from Rs510

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	75.0	75.0	75.0
Institutional investors	14.8	14.6	14.7
MFs and other	1.0	1.0	1.1
Insurance co	1.6	1.7	1.9
FII	12.2	11.9	11.7
Others	10.2	10.4	10.3

Source: BSE

Price chart



Research Analysts:

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6637 7209

Vismaya Agarwal, CFA

vismaya.agarwal@icicisecurities.com
+91 22 2277 7632

Berger Paints

HOLD

Maintained

Rs550

Revenue decline in-line with the industry

In 1QFY21, Berger's revenue decline of 45.8% was an (optical) outperformance versus Kansai (58.6%) & Akzo (64.1%) and at par with Asian Paints (43%). Excluding STP acquisition (in Oct 2019), its performance (c.49% revenue decline) is in-line with industry. Likely higher trade margins, inferior revenue mix and lower profitability/ losses of STP would have impacted EBITDA margins. We believe this is transitory impact and should normalize by Q4FY21. Some cost savings are structural in nature and there will be savings in freight cost post commencement of Uttar Pradesh plant in H1FY21. We expect it to improve margins in FY22 (and beyond). We remain structural bulls, yet retain HOLD rating as premium valuations vs APNT is unjustified.

- **Q1FY21 results:** Berger reported consolidated revenue, EBITDA, PAT decline of 45.8%, 69.8% and 92.9%, respectively. We believe volume decline was c.40% YoY. While Apr'20 was complete washout, there is gradual recovery in May'20 and June'20. Standalone business reported revenue and PAT decline of 47.9% and 69.7%, respectively. We note international business including STP (i.e. Consolidated – Standalone) reported net loss of Rs302mn.
- **Gross margin expansion of just 10bps due to likely inferior revenue mix:** While input prices have declined, the gross margin expanded just 10bps YoY. We note likely reasons were (1) higher trade margins and (2) Change in revenue mix. Higher share of value-for-money products would have impacted the gross margin. In-spite of cost saving measures, EBITDA margin declined 788bps YoY due to stable fixed costs. We believe some of the cost savings are structural and the commencement of Uttar Pradesh Plant in H1FY21 will further reduce freight costs.
- **Differentiation to gain market share:** Berger's strategy remains differentiation to gain market share. It plans to bring differentiation in products as well as serving to trade/ consumers. As consumers focus more on essentials in tough macros conditions, Berger's differentiation strategy may face transitory hurdles.
- **Margins of STP to inch upwards:** STP, construction chemical subsidiary of Berger, has lower margins than Berger. We believe (1) lower margins and (2) initial placement costs would have resulted in lower profitability / losses of STP. With higher scale and product rollout through Berger's distribution, we model profitability of STP to improve in coming quarters.
- **Maintain HOLD:** We model Berger to report revenue and PAT CAGRs of 3.6% and 3.7% YoY respectively. RoE is expected to decline to 22.3% in FY22 from 25.9% in FY20. However, at current valuations, we believe the stock price upside is capped, hence maintain our HOLD rating with a target price of Rs540 (510 earlier).

Market Cap	Rs535bn/US\$7.1bn
Reuters/Bloomberg	BRGR.BO/BRGR IN
Shares Outstanding (mn)	971.2
52-week Range (Rs)	589/360
Free Float (%)	25.0
FII (%)	11.7
Daily Volume (US\$'000)	10,913
Absolute Return 3m (%)	21.0
Absolute Return 12m (%)	51.5
Sensex Return 3m (%)	22.5
Sensex Return 12m (%)	2.7

Year to March (cons)	FY19	FY20	FY21E	FY22E
Net Revenue (Rs mn)	60,619	63,658	57,427	68,292
Net Profit (Rs mn)	4,871	6,388	5,756	7,075
Dil. EPS (Rs)	5.1	6.8	5.9	7.3
% Chg YoY	8.0	32.1	(12.5)	22.9
P/E (x)	107.3	81.2	92.8	75.5
CEPS (Rs)	6.6	8.8	8.0	9.6
EV/EBITDA (x)	60.9	50.8	55.9	47.3
Dividend Yield (%)	0.3	0.4	0.5	0.5
RoCE (%)	18.0	21.3	16.9	18.6
RoE (%)	21.4	25.9	20.5	22.3

Table 1: Q1FY21 financial performance (consolidated)

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% YoY	Q4FY20	% QoQ
Net revenues	9,308	17,165	(45.8)	13,548	(31.3)
Raw materials	5,495	10,154	(45.9)	7,639	(28.1)
% of sales	59%	59%	-11 bps	56%	266 bps
Employee costs	1,162	1,117	4.1	1,237	(6.0)
% of sales	12.5%	6.5%	598 bps	9.1%	336 bps
Other expenditure	1,729	2,843	(39.2)	2,589	(33.2)
% of sales	19%	17%	202 bps	19%	-53 bps
Total expenditure	8,387	14,114	(40.6)	11,464	(26.8)
EBITDA	921	3,052	(69.8)	2,084	(55.8)
EBITDA margin (%)	9.9%	17.8%	-788 bps	15.4%	-549 bps
Other income	78	219	(64.2)	167	(53.0)
PBDIT	999	3,271	(69.4)	2,251	(55.6)
Depreciation	504	462	9.0	493	2.1
PBIT	496	2,809	(82.4)	1,758	(71.8)
Interest	124	99	24.6	141	(11.9)
PBT	372	2,709	(86.3)	1,617	(77.0)
Tax	176	944	(81.3)	560	(68.6)
% of PBT	47%	35%	1253 bps	35%	1272 bps
Extraordinary	(34)	(84)	(82)	(82)	
PAT	161	1,681	(90.4)	975	(83.4)
Share in Associates	(41)	2	(1,900.0)	(19)	119.0
Reported PAT	120	1,684	(92.9)	956	(87.4)
Adjusted PAT	154	1,768	(91.3)	1,038	(85.1)

Source: Company data, I-Sec research

Table 2: Q1FY21 financial performance (standalone)

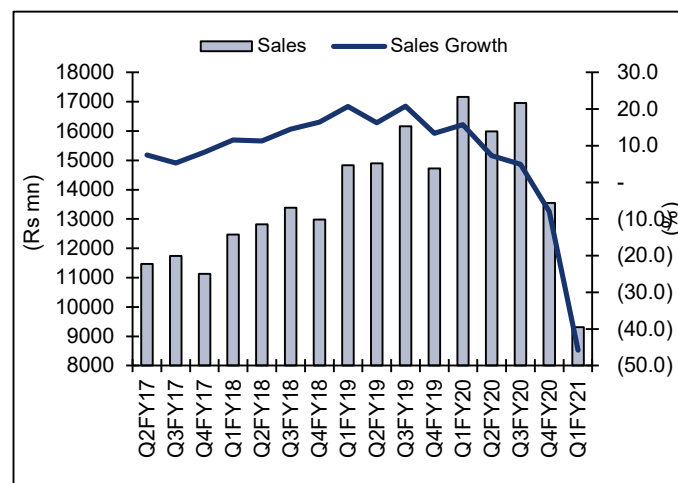
(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% YoY	Q4FY20	% QoQ
Net revenues	8,261	15,852	(47.9)	11,748	(29.7)
Raw materials	4,943	9,484	(47.9)	6,705	(26.3)
% of sales	60%	60%	1 bps	57%	276 bps
Employee costs	878	875	0.3	832	5.4
% of sales	11%	6%	510 bps	7%	354 bps
Other expenditure	1,306	2,628	(50.3)	2,302	(43.3)
% of sales	16%	17%	-77 bps	20%	-379 bps
Total expenditure	7,126	12,987	(45.1)	9,839	(27.6)
EBITDA	1,135	2,865	(60.4)	1,909	(40.5)
EBITDA margin (%)	13.7%	18.1%	-434 bps	16.2%	-251 bps
Other income	71	164	(56.9)	1,085	(93.5)
PBDIT	1,206	3,029	(60.2)	2,994	(59.7)
Depreciation	444	418	6.2	432	2.8
PBIT	762	2,611	(70.8)	2,562	(70.3)
Interest	88	70	24.3	96	(9.0)
PBT	674	2,541	(73.5)	2,466	(72.7)
Tax	176	896	(80.4)	519	(66.1)
% of PBT	26%	35%	-917 bps	21%	506 bps
PAT	498	1,645	(69.7)	1,947	(74.4)
Extraordinary items	(4)	(15)	(9)	(9)	
Reported PAT	494	1,630	(69.7)	1,937	(74.5)
Adjusted PAT	498	1,639	(69.6)	1,947	(74.4)

Source: Company data, I-Sec research

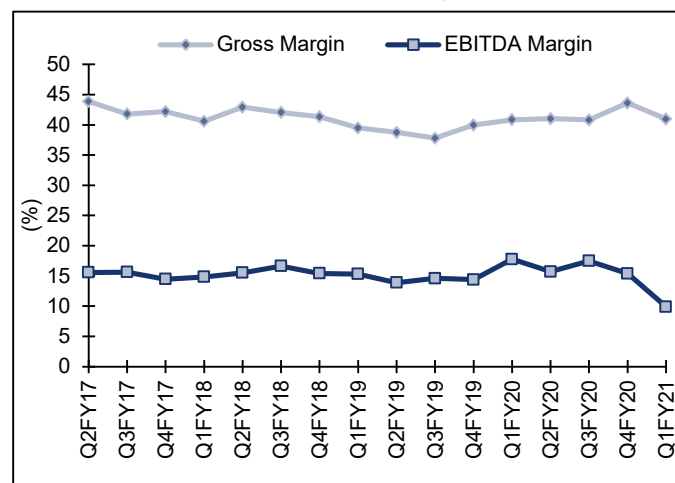
Key operational highlights (Consolidated)

Chart 1: Revenues and Growth rates



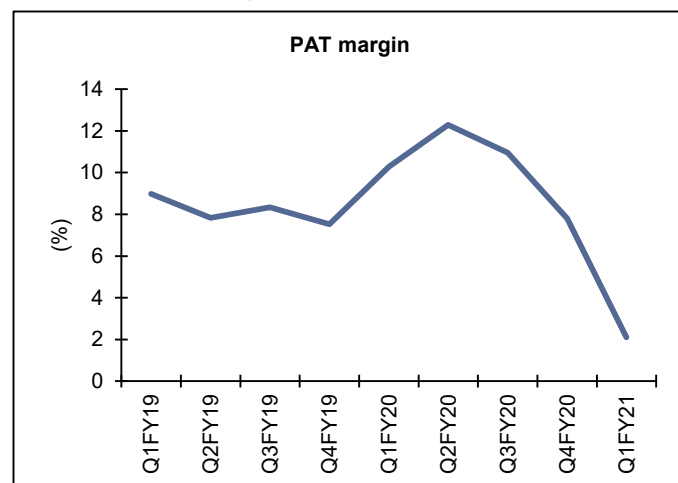
Source: Company data, I-Sec research

Chart 2: Gross and EBITDA margins



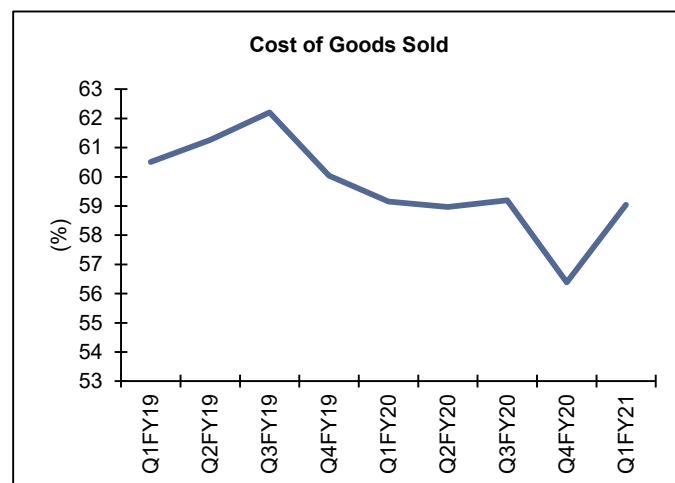
Source: Company data, I-Sec research

Chart 3: PAT margin



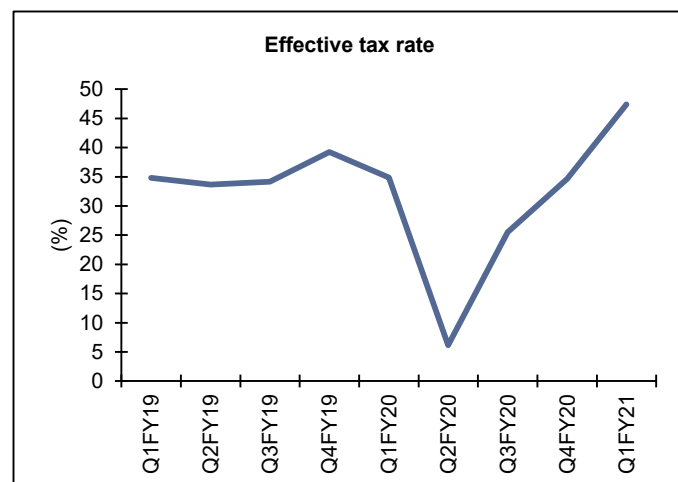
Source: Company data, I-Sec research

Chart 4: COGS as % of Net sales



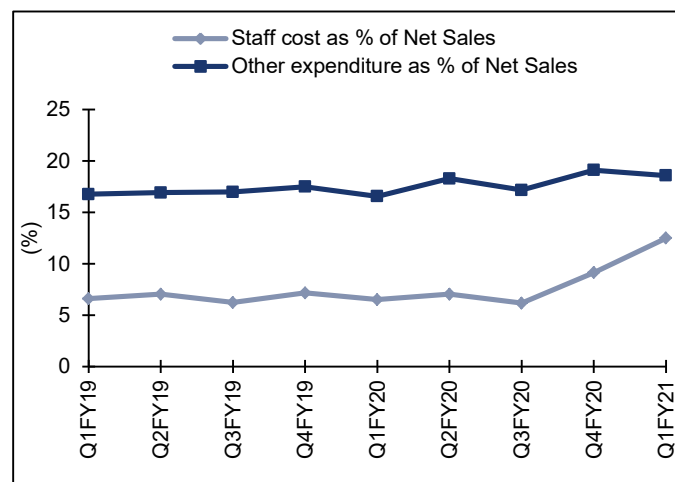
Source: Company data, I-Sec research

Chart 5: Effective tax rate



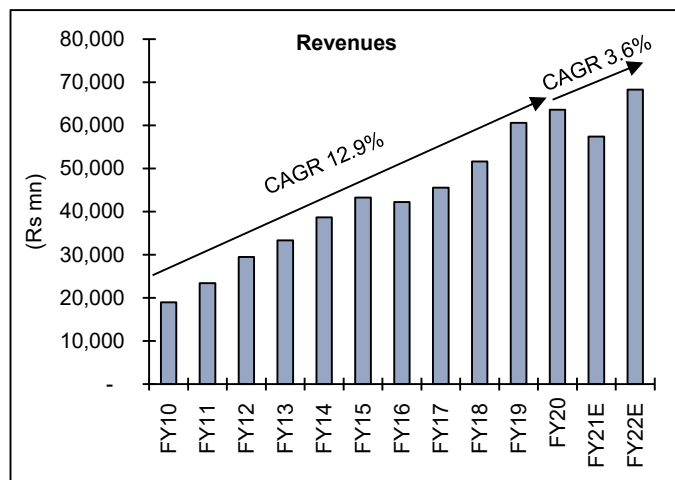
Source: Company data, I-Sec research

Chart 6: Staff cost and other expenditure



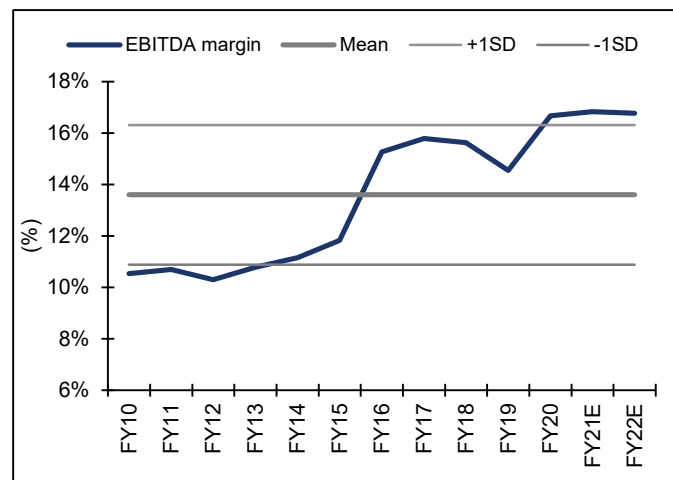
Source: Company data, I-Sec research

Chart 7: Revenues and growth rates



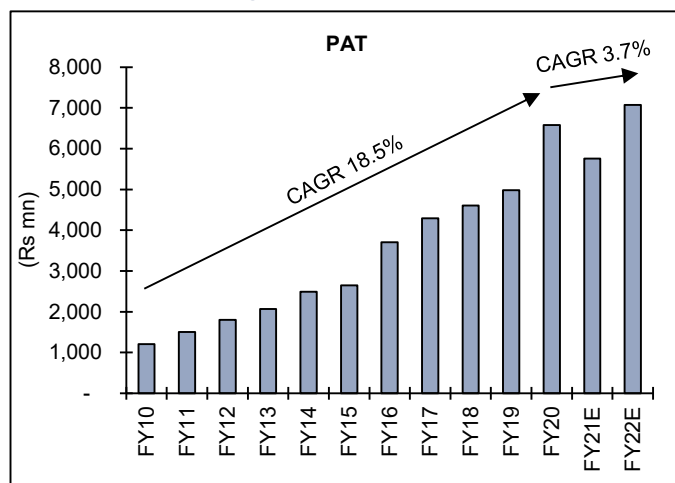
Source: Company data, I-Sec research

Chart 8: EBITDA margin



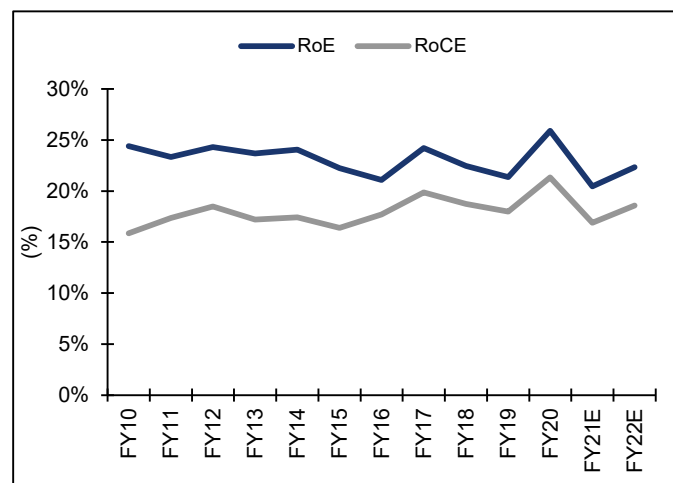
Source: Company data, I-Sec research

Chart 9: PAT and growth rates



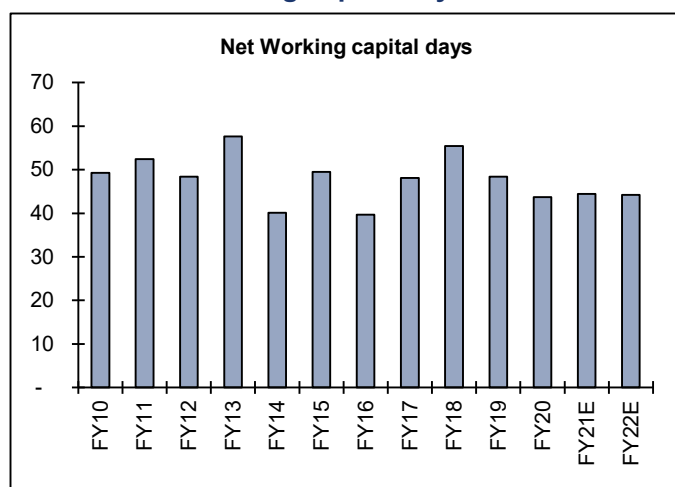
Source: Company data, I-Sec research

Chart 10: RoE & RoCE



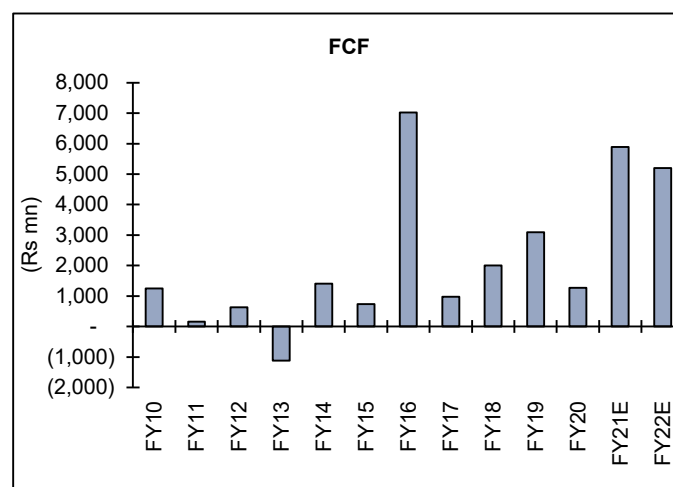
Source: Company data, I-Sec research

Chart 11: Net working capital days



Source: Company data, I-Sec research

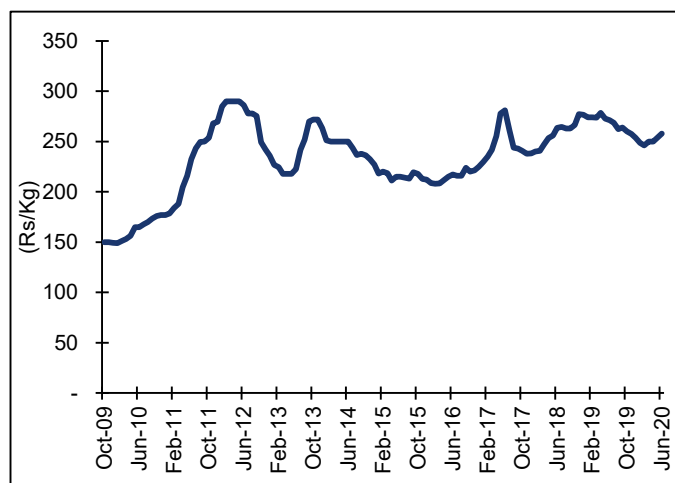
Chart 12: Free cash-flow



Source: Company data, I-Sec research

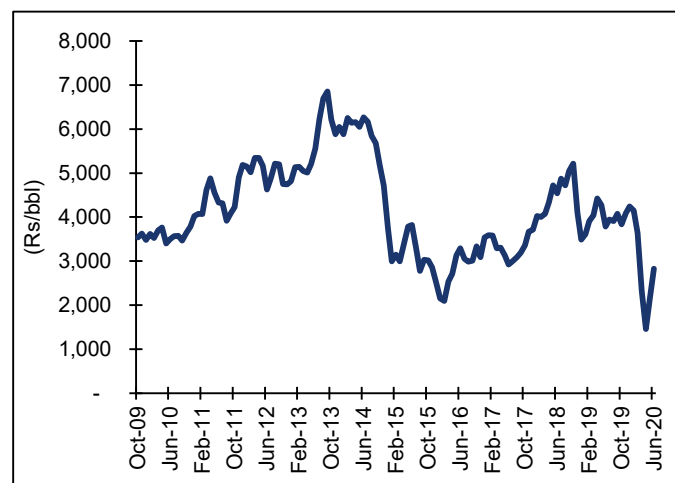
Key raw material prices

Chart 13: Titanium di-oxide



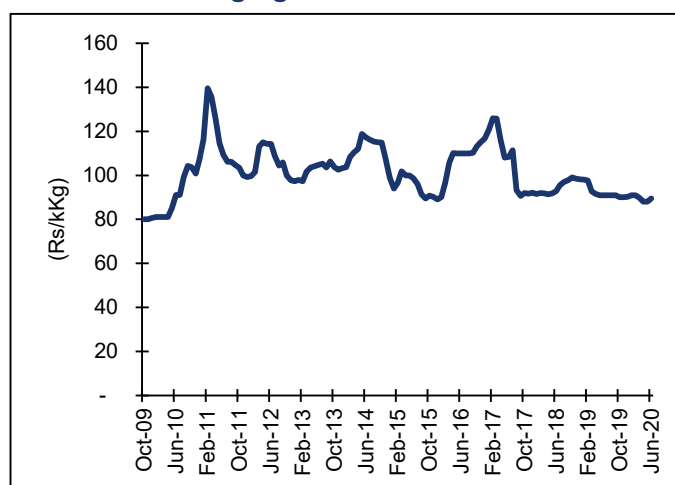
Source: Company data, I-Sec research

Chart 14: Crude oil



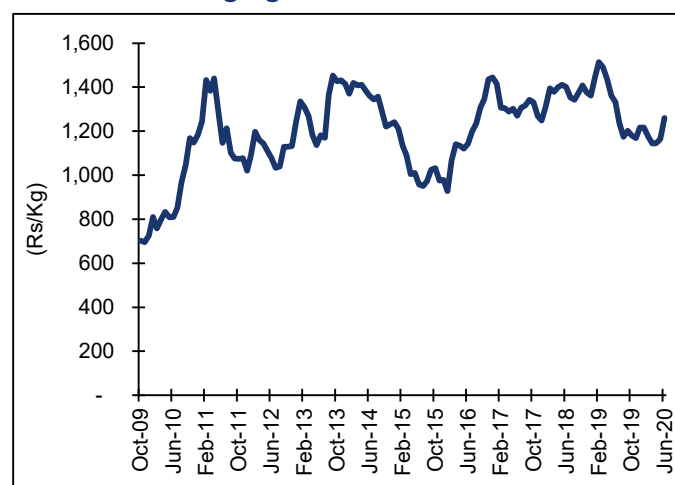
Source: Company data, I-Sec research

Chart 15: Packaging material - PVC



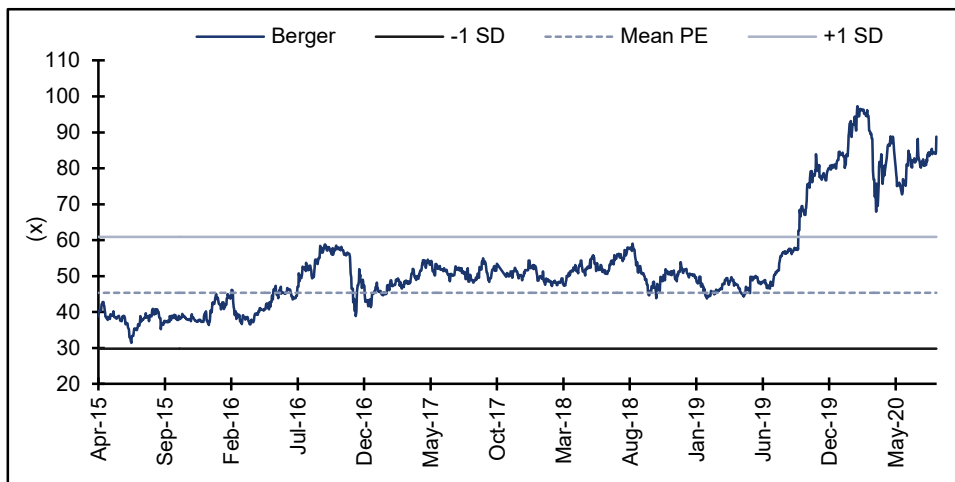
Source: Company data, I-Sec research

Chart 16: Packaging material - Tin



Source: Company data, I-Sec research

Chart 17: Mean PE and Standard deviation



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	60,619	63,658	57,427	68,292
Operating Expenses	51,803	53,048	47,762	56,843
EBITDA	8,816	10,610	9,666	11,450
% margins	14.5%	16.7%	16.8%	16.8%
Depreciation & Amortisation	1,378	1,910	1,994	2,219
Gross Interest	323	470	549	570
Other Income	600	685	573	799
Recurring PBT	7,715	8,915	7,695	9,459
Less: Taxes	2,732	2,271	1,939	2,384
Less: Minority Interest	(5)	(66)	-	-
Net Income (Reported)	4,979	6,578	5,756	7,075
Extraordinaries (Net)	107	190	-	-
Recurring Net Income	4,871	6,388	5,756	7,075

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	23,437	24,071	21,414	24,151
of which cash & cash eqv.	2,385	2,199	1,683	687
Total Current Liabilities & Provisions	12,880	14,141	12,639	15,076
Net Current Assets	10,557	9,930	8,775	9,074
Investments	4,762	3,983	7,983	11,483
Net Fixed Assets	11,029	16,366	16,872	17,453
Capital Work-in-Progress	1,699	1,785	1,785	1,785
Goodwill	2,693	2,790	2,790	2,790
Total Assets	30,739	34,854	38,205	42,585
Liabilities				
Borrowings	5,107	7,699	7,999	8,299
Deferred Tax Liability	871	483	483	483
Minority Interest	35	71	71	71
Equity Share Capital	971	971	971	971
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	23,756	25,630	28,681	32,761
Less: Misc. Exp. n.w.o.				
Net Worth	24,727	26,601	29,652	33,732
Total Liabilities	30,739	34,854	38,205	42,585

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	6,341	8,663	7,750	9,295
Working Capital Changes	(185)	332	639	(1,295)
Capital Commitments	(3,108)	(7,333)	(2,500)	(2,800)
Free Cashflow	3,048	1,662	5,889	5,199
Cash flow from Investing Activities	(1,478)	682	(4,000)	(3,500)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	885	2,593	300	300
Dividend paid	(2,220)	(2,575)	(2,427)	(2,719)
Change in Deferred Tax Liability	46	(389)	-	-
Chg. in Cash & Bank balances	335	(186)	(516)	(997)

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	5.1	6.8	5.9	7.3
Cash EPS	6.6	8.8	8.0	9.6
Dividend per share (DPS)	1.9	2.2	2.5	2.8
Book Value per share (BV)	25.5	27.4	30.5	34.7
Growth (%)				
Net Sales	17.3	5.0	-9.8	18.9
EBITDA	9.2	20.4	-8.9	18.5
PAT	8.0	32.1	-12.5	22.9
Cash EPS	8.9	34.5	-9.4	19.9
Valuation Ratios (x)				
P/E	107.3	81.2	92.8	75.5
P/CEPS	83.9	62.4	68.9	57.5
P/BV	21.6	20.1	18.0	15.8
EV / EBITDA	60.9	50.8	55.9	47.3
EV / Sales	8.9	8.5	9.4	7.9
Operating Ratios				
Raw Material / Sales (%)	61.0	58.5	57.8	58.0
Employee cost / Sales (%)	6.7	7.1	7.4	7.3
SG&A / Sales (%)	17.7	17.7	18.0	17.9
Other Income / PBT (%)	7.8	7.7	7.4	8.4
Effective Tax Rate (%)	35.4	25.5	25.2	25.2
Working Capital (days)	48.4	43.7	44.5	44.2
Inventory Turnover (days)	73.3	72.3	72.3	72.3
Receivables (days)	39.9	40.4	40.4	40.4
Payables (days)	97.2	103.0	103.0	103.0
Net D/E Ratio (x)	0.2	0.3	0.3	0.2
Profitability Ratios (%)				
Net Income Margins	8.2	10.3	10.0	10.4
RoACE	18.0	21.3	16.9	18.6
RoAE	21.4	25.9	20.5	22.3
Dividend Payout	37.0	32.1	42.2	38.4
Dividend Yield	0.3	0.4	0.5	0.5
EBITDA Margins	14.5	16.7	16.8	16.8

Source: Company data, I-Sec research

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