

Strong performance continues...

Berger's Q3FY21 performance was much ahead of our expectations on all fronts. Overall volume growth at ~28% was largely led by decorative segment wherein rural and semi urban regions have witnessed a continuous trend of strong demand supported by the festive season. On the other hand, a strong recovery in automotive sales helped in a robust revival in the performance of industrial paints (~15% of topline). The management has reiterated strong growth momentum will continue in Q4 led by uptick in urban demand and a favourable base. We believe volume growth for Berger would be in line with market leader Asian Paints at 13% in FY20-23E supported by market share gains and reduction in repainting cycles. On the margin front, we believe EBITDA margin will normalise, going forward, with a recovery in input prices and restoration of overheads.

New product launches, dealer addition to drive future growth

The company has recently launched new product 'Silk Breath Easy- Anti bacterial' in the decorative paint segment. It has also launched product under the water proofing segments. Berger sees a strong growth opportunity in the water proofing industry, going forward. The Indian water proofing industry is pegged at ₹ 6000 crore currently compared to China wherein the size is pegged at US\$22 billion. On the distribution front, the company plans to increase its dealer network by ~10% annually, going forward. The current dealer network of Berger is ~30,000.

EBITDA margin to normalise with input cost recovery

Benign input prices helped gross margin expansion to the tune of 343 bps YoY. However restoration of other costs restricted EBITDA margin expansion to the tune of 212 bps to 19.6%. While the management has indicated that the company will take price hike to offset higher input prices going forward, we believe restoration of other costs (such as travelling & advertisement) would lead to a normalised EBITDA margin, going forward.

YTD recovery slightly lower compared to market leader

On a YTD basis, we believe Berger's recovery on the revenue and profitability front is slightly lower compared to Asian Paints. Asian Paints' 9MFY21 sales recovery was at ~97% while PAT was up ~2% YoY. However, for Berger, sales and PAT recovery was at ~96% and ~92%, respectively. We believe strong pent up demand in the urban region helped in a faster recovery for Asian Paints in terms of margin recovery.

Valuation & Outlook

While we maintain our positive stance on the stock, the recent rally in the stock factors in most of the positives. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 810/share (earlier TP ₹ 675).

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	6061.9	6365.8	6584.0	8373.2	9784.6	15.4
EBITDA	881.6	1061.0	1171.9	1427.6	1752.4	18.2
EBITDA Margin (%)	14.5	16.7	17.8	17.1	17.9	
Net Profit	497.5	656.1	738.4	944.3	1201.0	22.3
EPS (₹)	5.1	6.8	7.6	9.7	12.4	
P/E (x)	150.3	114.0	101.3	79.2	62.3	
Price/Book (x)	30.2	28.1	23.7	20.6	18.1	
Mcap/Sales (x)	12.3	11.7	11.4	8.9	7.6	
RoE (%)	20.1	24.7	23.4	26.0	29.0	
RoCE (%)	26.2	26.6	26.1	30.0	35.1	

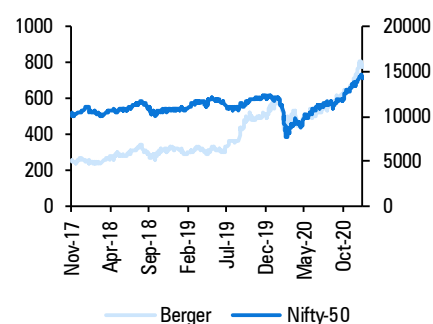
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	74,782.4
Total Debt (FY20) (₹ Crore)	535.9
Cash and Inv (FY20) (₹ Crore)	399.3
EV (₹ Crore)	74,919.0
52 week H/L (₹)	824/390
Equity capital (₹ Crore)	97.1
Face value (₹)	1.0

Price Performance



Key risk to our call

- Sharp increase in overheads or delay in price hikes may lead to EBITDA margin contraction
- Better than expected volume growth vs. our estimate of ~13% for FY20-23E

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	2,118.2	1,911.2	1,695.9	24.9	1,742.6	21.6	Strong volume growth helps drive topline growth
Other Income	15.6	15.0	14.3	9.4	23.2	-32.7	
Raw Material Exp	1,181.2	1,114.3	1,003.9	17.7	996.8	18.5	Gross margin expansion to the tune of 343 bps YoY mainly due to benign raw material prices
Employee Exp	128.1	118.5	104.7	22.4	114.1	12.2	
Other exp	393.9	328.7	291.0	35.4	296.5	32.9	Other expenses increased ~140 bps YoY led by restoration of costs
Total Exp	1,703.2	1,561.5	1,399.6	21.7	1,407.3	21.0	
EBITDA	415.0	349.8	296.3	40.1	335.2	23.8	
EBITDA Margin (%)	19.6	18.3	17.5	212 bps	19.2	35 bps	Better gross margin helped drive EBITDA margin during Q3
Depreciation	52.9	56.0	48.3	9.5	53.7	-1.6	
Interest	8.9	11.8	12.7	-29.9	10.9	-18.7	
Exceptional items							
PBT	368.9	297.0	249.6	47.8	293.8	25.6	
Total Tax	94.9	74.8	63.7	48.9	71.6	32.4	
PAT	275.0	219.7	181.9	51.2	221.1	24.4	PAT largely tracking strong sales and operating profit

Key Metrics

Volume growth (%)	28.0	15.0	8.0		15.0		Strong festive season coupled with opening up of metro helped drive volume growth during Q3FY21
Realisation growth (%)	-2.4	-2.0	-3.0		-5.2		Lower realisation due to change in product mix (skewed more towards lower end products)

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comment
	Old	New	% Chg	Old	New	% Chg	
Revenue	7772.8	8373.2	7.7	9088.6	9784.6	7.7	We factor in current quarter's performance on our revenue estimates for FY21E. We introduce FY23E estimates with revenue CAGR of 13% in FY20-23E
EBITDA	1430.2	1427.6	(0.2)	1690.5	1752.4	3.7	
EBITDA Margin (%)	18.4	17.1	-135bps	18.6	17.9	-69bps	We believe, stabilisation in raw material prices and restoration of some essential operating costs would result in a normalised EBITDA margin, going forward
PAT	937.5	944.3	0.7	1140.9	1201.0	5.3	
EPS (₹)	9.7	9.7	0.7	11.8	12.4	5.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY19E	FY20E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Volume Gr (%)	16.3	5.6	9.0	22.3	11.3	4.6	24.1	13.5	We model volume CAGR of 14% in FY20-23E on a lower base, focus on new product categories (such as construction chemicals) and continued demand staying intact in tier II and tier III cities
Realisation Gr (%)	0.9	(1.1)	(5.2)	3.8	5.0	(5.0)	(1.2)	3.0	

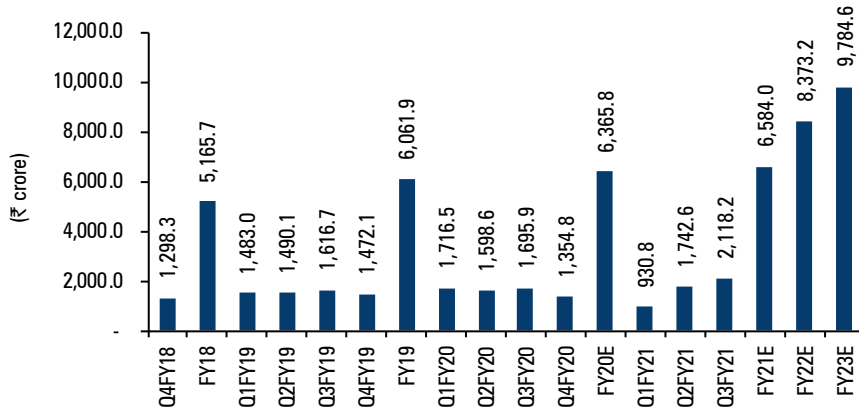
Source: Company, ICICI Direct Research

Conference call highlights

- There were no price hikes in the decorative paints segment during Q3FY21 but there is a possibility of price hikes, going forward, if raw material prices continue their uptrend
- Near term price hike possibility in the industrial product segment to maintain profitability
- Water proofing and construction chemical business continued to perform strongly in Q3FY21
- The company has been continuing raw material price negotiations with its suppliers, resulting in better gross margins. However, price recovery in some key raw materials is likely to keep gross margin under check for the near term
- In order to maintain its market share and margins from new entrant into paint industry, the company is focusing on launching premium products and dealer addition, going forward
- The company has done a capex of ~₹ 500 crore for new capacity in UP. The plant has annual decorative manufacturing capacity of ~ 3L tonnes. It would be operational from FY22
- Faster development in tier II and tier III cities, expansion of distribution channel, demand from new constructions, addition of new product lines (such as water proofing) and shift in demand from unorganised to organised would help outpace growth of the paint industry compared to GDP growth in the medium to long term
- Strong performance of subsidiaries in Nepal and Poland post ease in lockdown restriction. However, performance in Russia was impacted by adverse currency movement

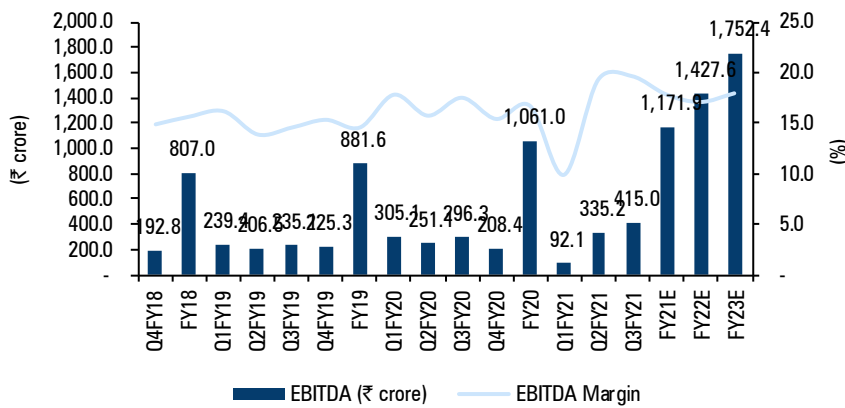
Financial story in charts

Exhibit 4: Dealer addition and new product launches to drive topline



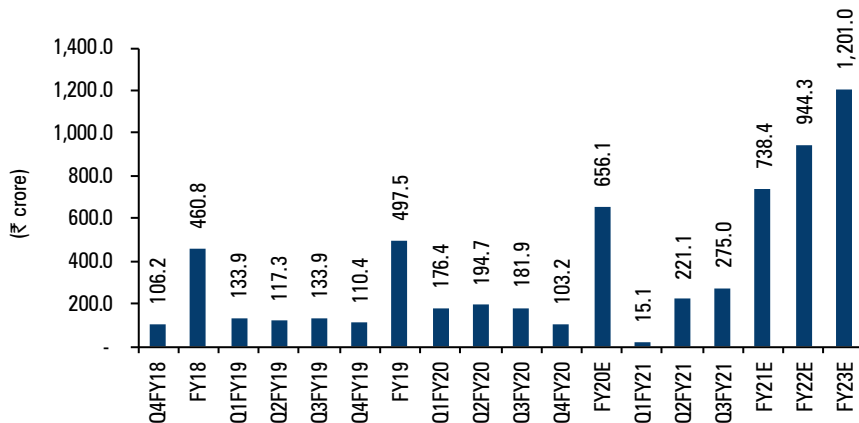
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	6,365.8	6,584.0	8,373.2	9,784.6
Growth (%)	5.0	3.4	27.2	16.9
Raw material expens	3,209.2	3,055.0	4,019.1	4,647.7
Employee expenses	452.5	474.0	556.8	616.4
Other expenses	1,126.5	1,198.3	1,532.3	1,789.6
Total Operating Exp	5,304.8	5,412.0	6,945.6	8,032.2
EBITDA	1,061.0	1,171.9	1,427.6	1,752.4
Growth (%)	20.4	10.5	21.8	22.8
Depreciation	191.0	212.0	234.4	244.6
Interest	47.0	40.6	27.5	15.8
Other Income	68.5	72.4	92.1	107.6
PBT	891.5	991.8	1,257.7	1,599.6
Total Tax	227.1	249.9	317.0	403.1
PAT	656.1	738.4	944.3	1,201.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	656.1	738.4	944.3	1201.0
Add: Depreciation	191.0	212.0	234.4	244.6
(Inc)/dec in Current Assets	-91.8	-426.7	-482.7	-472.0
Inc/(dec) in CL and Provisions	86.9	-45.8	267.8	298.2
Others	47.0	40.6	27.5	15.8
CF from operating activities	889.3	518.5	991.4	1287.6
(Inc)/dec in Investments	8.3	-20.0	-120.0	-120.0
(Inc)/dec in Fixed Assets	-733.3	-150.0	-250.0	-250.0
Others	296.9	-50.0	-50.0	-50.0
CF from investing activities	-428.2	-220.0	-420.0	-420.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	36.0	-65.0	-155.0	-180.0
Dividend paid & dividend tax	-221.4	-209.8	-466.1	-699.2
Others	-294.3	-71.3	-27.5	-15.8
CF from financing activities	-479.7	-346.1	-648.7	-895.0
Net Cash flow	-18.6	-47.6	-77.3	-27.4
Opening Cash	238.5	219.9	172.3	95.0
Closing Cash	219.9	172.3	95.0	67.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	97.1	97.1	97.1	97.1
Reserve and Surplus	2,563.0	3,060.9	3,539.1	4,040.9
Total Shareholders funds	2,660.1	3,158.0	3,636.2	4,138.0
Total Debt	535.9	470.9	315.9	135.9
Other non current liabilities	327.0	327.0	327.0	327.0
Total Liabilities	3,523.1	3,956.0	4,279.1	4,600.9
Assets				
Gross Block	2,221.0	2,371.0	2,621.0	2,871.0
Less: Acc Depreciation	584.4	796.4	1,030.8	1,275.4
Total Fixed Assets	1,815.1	1,753.1	1,768.6	1,774.0
Investments	135.8	155.8	275.8	395.8
Inventory	1,278.5	1,407.0	1,674.6	1,956.9
Debtors	714.1	901.9	1,032.3	1,152.7
Loans and Advances	29.0	30.3	34.4	40.2
Other CA	187.1	296.3	376.8	440.3
Cash	219.9	172.3	95.0	67.6
Total Current Assets	2,428.6	2,807.8	3,213.2	3,657.8
Creditors	1,065.8	1,064.3	1,261.7	1,501.2
Provisions	56.2	41.5	49.2	58.5
Other CL	259.9	230.4	293.1	342.5
Total Current Liabilities	1,381.9	1,336.2	1,603.9	1,902.2
Net current assets	1,046.7	1,471.6	1,609.2	1,755.6
Other non current assets	525.4	575.4	625.5	675.5
Total Assets	3,523.1	3,956.0	4,279.1	4,600.9

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	6.8	7.6	9.7	12.4
Cash EPS	8.7	9.8	12.1	14.9
BV	27.4	32.5	37.4	42.6
DPS	2.3	2.2	4.8	7.2
Operating Ratios (%)				
EBITDA Margin	16.7	17.8	17.1	17.9
PAT Margin	10.3	11.2	11.3	12.3
Asset Turnover	2.9	2.8	3.2	3.4
Inventory Days	73.3	78.0	73.0	73.0
Debtor Days	40.9	50.0	45.0	43.0
Creditor Days	61.1	59.0	55.0	56.0
Return Ratios (%)				
RoE	24.7	23.4	26.0	29.0
RoCE	26.6	26.1	30.0	35.1
RoIC	30.4	29.4	32.5	37.5
Valuation Ratios (x)				
P/E	114.0	101.3	79.2	62.3
EV / EBITDA	70.6	63.9	52.3	42.5
EV / Net Sales	11.8	11.4	8.9	7.6
Market Cap / Sales	11.7	11.4	8.9	7.6
Price to Book Value	28.1	23.7	20.6	18.1
Solvency Ratios				
Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	2.0	2.4	2.4	2.3
Quick Ratio	0.8	1.1	1.1	1.0

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,505	3,010	Hold	2,40,230	32.8	39.9	46.3	76.3	62.7	54.1	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0			
Astral Polyteknik (ASTPOL)	2,034	2,225	Hold	30,645	22.2	30.4	37.1	91.6	66.8	54.9	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5			
Amber Enterprises (AMBEN)	3,143	3,015	Buy	9,884	29.8	68.2	97.6	105.3	46.1	32.2	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8			
Bajaj Electricals (BAJELE)	1,050	585	Buy	11,937	11.8	17.1	23.0	NM	61.5	45.6	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4			
Berger Paints (BERPAI)	770	810	Hold	74,782	7.6	9.7	12.4	101.3	79.2	62.3	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0			
Crompton Greaves(CROGR)	399	480	Buy	25,017	7.9	9.5	12.0	50.2	41.9	33.1	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1			
EPL (ESSPRO)	220	250	Hold	6,941	7.8	8.9	10.8	28.1	24.7	20.4	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0			
Havells India (HAVIND)	1,155	1,255	Hold	72,060	16.1	17.8	22.9	71.8	64.9	50.4	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7			
Kansai Nerolac (KANNER)	580	675	Buy	31,257	9.7	12.7	15.0	59.5	45.6	38.8	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6			
Pidilite Industries (PIDIND)	1,771	1,920	Buy	89,931	22.1	28.2	32.9	80.0	62.8	53.8	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9			
Polycab India (POLI)	1,324	1,385	Buy	19,712	57.9	67.2	79.7	22.9	19.7	16.6	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1			
Supreme Indus (SUPIND)	1,898	2,010	Buy	24,110	62.2	50.0	58.0	30.5	38.0	32.7	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9			
Symphony (SYMLIM)	1,063	1,090	Hold	7,436	13.1	29.8	40.0	80.9	35.7	26.6	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7			
Time Techno (TIMTEC)	56	43	Hold	1,266	7.5	4.0	9.1	7.5	14.1	6.2	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7			
V-Guard Ind (VGUARD)	229	280	Buy	9,808	4.2	6.1	7.0	54.1	37.7	32.5	37.2	27.9	24.1	23.6	27.9	28.8	16.8	21.1	21.8			
Voltas Ltd (VOLTAS)	1,103	845	Hold	36,480	12.3	22.6	29.8	89.6	48.8	37.0	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5			

Source: Company, ICICI Direct Research

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