

Volume growth momentum continues...

Berger's Q4FY21 volume growth at 58% YoY (Q2:15%; Q3: 28%) is one of the best in the industry and much ahead of our expectation of 28%. Apart from a favourable base, the decorative paints volume growth was largely driven by a pick-up in construction activity in Q4 and healthy growth in construction chemical (largely water proofing business). On the other hand, a strong recovery in automotive sales helped a strong recovery in the performance of industrial paints (~15% of topline). For FY21, overall volume growth came in at 15% despite a loss of sales in Q1. However, the paint industry will witness near term demand challenges due to lockdown and margin pressure due to low operating leverage. Hence, we revise our revenue, earning estimates downward by ~5% each. We believe paint demand will pick up gradually post opening up of the markets. Also, the management has reiterated strong growth momentum would continue in the water proofing segment, which will aid in future volume growth.

Gross margin remains intact despite inflationary pressure

Despite significant inflationary pressure, Berger maintained its gross margin on a YoY basis in Q4FY21 (better than ~266 bps contraction in gross margin of Asian Paints). However, higher advertisement expenditure in Q4FY21 (associated with new product launches) limited the gain in EBITDA margin by 118 bps YoY for Berger. In order to offset high raw material prices the company took a price hike of ~2.5% in May 2021 and guided for further price hike in near future. While price hikes and improved product mix will help partially offset inflationary pressure in FY21-23E, we see limited upside in EBITDA margin considering higher advertisement cost and restoration of travelling & other costs.

Strong revenue traction from subsidiaries in Q4

Subsidiaries revenue (calculated) in Q4FY21 increased ~27% despite a higher base of 51% growth. The company's subsidiaries in BJN Nepal and Bolix SA (Poland) reported a strong sales recovery in Q4FY21 post ease in lockdown restrictions and improved demand conditions in the respective regions. On the domestic fronts, STP Ltd (STPL), which is primarily into waterproofing and protective coatings has also recorded a strong performance in Q4FY21 led by a pick-up in construction activities.

Valuation & Outlook

We build in revenue, PAT CAGR of ~20% and 29%, respectively, in FY21-23E supported by healthy volume growth of ~15%. We believe strong brand recall and a healthy balance sheet (RoE: 21%, RoCE: 25%) will help the company to sail through near term challenges easily. However, while we maintain our positive stance on the stock, the recent rally in the stock factors in most positives. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 835/share (earlier ₹ 810).

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (21-23E)
Net Sales	6061.9	6365.8	6817.6	7976.9	9809.0	19.9
EBITDA	881.6	1061.0	1188.0	1364.1	1755.8	21.6
EBITDA Margin (%)	14.5	16.7	17.4	17.1	17.9	
Net Profit	497.5	656.1	719.7	900.0	1193.1	28.8
EPS (₹)	5.1	6.8	7.4	9.3	12.3	
P/E (x)	155.0	117.5	107.1	85.7	64.6	
Price/Book (x)	31.2	29.0	22.8	20.8	18.4	
Mcap/Sales (x)	12.7	12.1	11.3	9.7	7.9	
RoE (%)	20.1	24.7	21.3	24.3	28.4	
RoCE (%)	26.2	26.6	24.9	28.3	34.6	

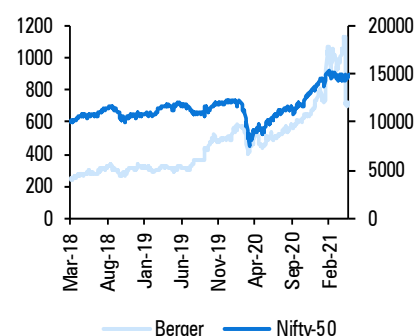
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	72,548.6
Total Debt (FY21) (₹ Crore)	383.8
Cash and Inv (FY21) (₹ Crore)	649.4
EV (₹ Crore)	72,283.0
52 week H/L (₹)	842/471
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 ~15% for FY20-23E

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	2,026.1	1,699.5	1,354.8	49.5	2,118.2	-4.3	Strong volume growth helps drive topline growth
Other Income	15.0	18.3	16.7	-9.9	15.6	-3.8	
Raw Material Exp	1,141.0	939.9	763.9	49.4	1,181.2	-3.4	
Employee Exp	126.8	122.0	123.7	2.5	128.1	-1.0	Savings in employee cost by ~300 bps YoY
Other exp	422.7	309.0	258.9	63.3	393.9	7.3	Other expense increased ~180 bps YoY led by higher advertisement expenses in Q4
Total Exp	1,690.5	1,370.8	1,146.4	47.5	1,703.2	-0.7	
EBITDA	335.6	328.7	208.4	61.0	415.0	-19.1	
EBITDA Margin (%)	16.6	19.3	15.4	118 bps	19.6	-303 bps	While the company maintained gross margin on a YoY basis, savings in employee cost helped drive EBITDA margin in Q4FY21
Depreciation	54.2	52.1	49.3	9.9	52.9	2.5	
Interest	11.9	8.4	14.1	-15.2	8.9	34.5	
Exceptional items							
PBT	284.5	286.5	161.7	75.9	368.9	-22.9	
Total Tax	74.8	64.4	56.0	33.4	94.9	-21.2	
PAT	208.6	223.2	103.2	102.2	275.0	-24.1	Strong PAT growth is largely tracking healthy topline growth and lower tax provisions
Key Metrics							
Volume growth (%)	58.0	28.0	-7.0		28.0		Favourable base, pick-up in construction activities and strong growth in water proofing & construction products helps drive volume growth in Q4
Realisation growth (%)	-5.4	-3.0	-1.0		-2.4		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	8373.2	7976.9	(4.7)	9784.6	9809.0	0.2	We tweak our revenue estimates downward for FY22E considering the impact of lockdown in Q1FY22
EBITDA	1427.6	1364.1	(4.5)	1752.4	1755.8	0.2	
EBITDA Margin (%)	17.1	17.1	0bps	17.9	17.9	0bps	We keep our margin estimates largely intact
PAT	944.3	900.0	(4.7)	1201.0	1193.1	(0.7)	
EPS (₹)	9.7	9.3	(4.5)	12.4	12.3	(0.9)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY19E	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E		
Volume Gr (%)	16.3	5.6	15.3	13.1	16.2	22.3	11.3	We model volume CAGR of 15% in FY21-23E on a lower base, focus on new product categories (such as construction chemicals) and continued intact demand from tier II and tier III cities	
Realisation Gr (%)	0.9	(1.1)	(7.2)	3.2	5.8	3.8	5.0		

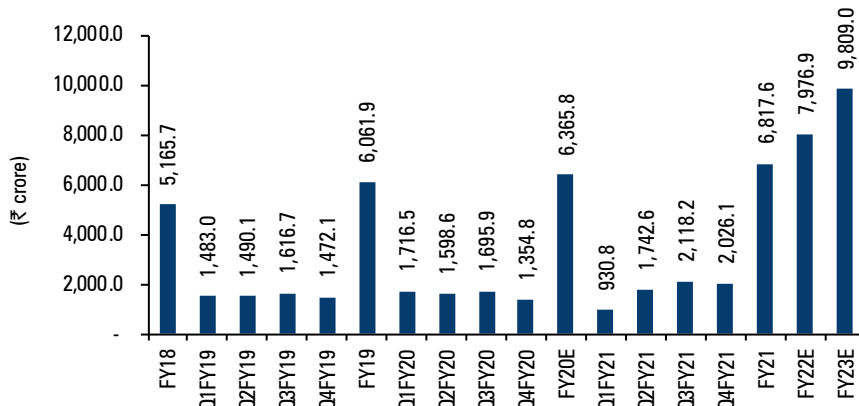
Source: Company, ICICI Direct Research

Conference call highlights

- **Demand Outlook:**
 - **Decorative Segment:** Stronger-than-expected demand from Metro and Tier 1 cities drove up volumes in Q4, which negated the impact of earlier quarters. The management believes this demand trajectory will continue in FY22
 - **Industrial Segment:** Demand for industrial paints segment (~20% of topline) was better than pre-Covid levels. The management is positive the higher demand will continue for FY22
- **Price hikes:** No price hikes were taken in the decorative paints segment during Q4FY21. The company took a price hike of 2.5% in May 2021. Berger has also guided for further price hikes in the coming months
- **New products:** Water proofing and construction chemical business continued to perform strong in Q4FY21. The company sees strong growth potential in this segment, going forward
- **Dealer addition:** The company has done aggressive dealer addition in FY21 (dealer network has grown 15%+ compared to a normalised annual rate of 10%). This is largely to expand reach of Berger into new geographies
- **Capex:** The company has planned a capex of ₹ 800 crore in FY22
- Strong performance of subsidiaries in Nepal and Poland post ease in lockdown restriction. However, gross margins were impacted by higher trading business

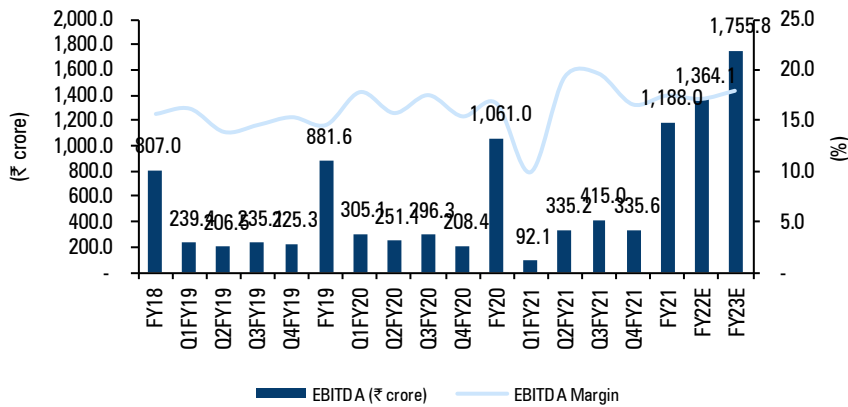
Financial story in charts

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



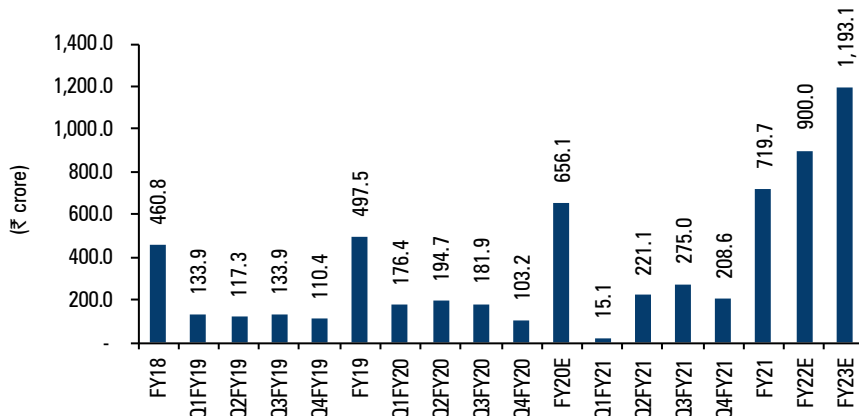
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: Improved EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Revenue	6,365.8	6,817.6	7,976.9	9,809.0
Growth (%)	5.0	7.1	17.0	23.0
Raw material expens	3,209.2	3,250.9	3,828.9	4,659.3
Employee expenses	452.5	485.1	502.5	578.7
Other expenses	1,126.5	1,275.9	1,483.7	1,834.3
Total Operating Exp	5,304.8	5,629.6	6,612.9	8,053.2
EBITDA	1,061.0	1,188.0	1,364.1	1,755.8
Growth (%)	20.4	12.0	14.8	28.7
Depreciation	191.0	211.1	231.3	264.8
Interest	47.0	44.1	21.4	9.7
Other Income	68.5	51.5	87.7	107.9
PBT	891.5	984.2	1,199.0	1,589.1
Total Tax	227.1	258.9	302.2	400.5
PAT	656.1	719.7	900.0	1,193.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	656.1	719.7	900.0	1193.1
Add: Depreciation	191.0	211.1	231.3	264.8
(Inc)/dec in Current Assets	-91.8	-704.1	89.1	-594.8
Inc/(dec) in CL and Provisions	86.9	404.8	-266.2	377.1
Others	47.0	44.1	21.4	9.7
CF from operating activities	889.3	675.6	975.7	1250.0
(Inc)/dec in Investments	8.3	-10.1	0.0	0.0
(Inc)/dec in Fixed Assets	-733.3	-259.3	-250.0	-250.0
Others	296.9	12.8	-20.0	-20.0
CF from investing activities	-428.2	-256.6	-270.0	-270.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	36.0	-152.1	-155.0	-180.0
Dividend paid & dividend tax	-221.4	-271.9	-271.9	-699.2
Others	-294.3	224.8	-321.1	-9.7
CF from financing activities	-479.7	-199.2	-748.1	-888.9
Net Cash flow	-18.6	219.7	-42.3	91.0
Opening Cash	238.5	219.9	439.6	397.3
Closing Cash	219.9	439.6	397.3	488.4

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	97.1	97.1	97.1	97.1
Reserve and Surplus	2,563.0	3,279.7	3,608.1	4,102.0
Total Shareholders funds	2,660.1	3,376.9	3,705.2	4,199.1
Total Debt	535.9	383.8	228.8	48.8
Other non current liabilities	327.0	373.7	373.7	373.7
Total Liabilities	3,523.1	4,134.4	4,307.7	4,621.6
Assets				
Gross Block	2,221.0	2,552.0	2,802.0	3,052.0
Less: Acc Depreciation	584.4	795.5	1,026.8	1,291.7
Total Fixed Assets	1,815.1	1,863.3	1,882.0	1,867.1
Investments	135.8	145.9	145.9	145.9
Inventory	1,278.5	1,616.1	1,595.4	1,961.8
Debtors	714.1	1,019.7	917.9	1,075.0
Loans and Advances	29.0	39.7	32.8	40.3
Other CA	187.1	237.3	277.7	341.4
Cash	219.9	439.6	397.3	488.4
Total Current Assets	2,428.6	3,352.5	3,221.0	3,906.8
Creditors	1,065.8	1,497.4	1,202.0	1,504.9
Provisions	56.2	54.2	43.5	54.5
Other CL	259.9	235.1	275.0	338.2
Total Current Liabilities	1,381.9	1,786.7	1,520.5	1,897.6
Net current assets	1,046.7	1,565.8	1,700.5	2,009.2
Other non current assets	525.4	559.4	579.4	599.4
Total Assets	3,523.1	4,134.4	4,307.7	4,621.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	6.8	7.4	9.3	12.3
Cash EPS	8.7	9.6	11.6	15.0
BV	27.4	34.8	38.2	43.2
DPS	2.3	2.8	2.8	7.2
Operating Ratios (%)				
EBITDA Margin	16.7	17.4	17.1	17.9
PAT Margin	10.3	10.6	11.3	12.2
Asset Turnover	2.9	2.7	2.8	3.2
Inventory Days	73.3	86.5	73.0	73.0
Debtor Days	40.9	54.6	42.0	40.0
Creditor Days	61.1	80.2	55.0	56.0
Return Ratios (%)				
RoE	24.7	21.3	24.3	28.4
RoCE	26.6	24.9	28.3	34.6
RoIC	30.4	29.9	32.4	39.6
Valuation Ratios (x)				
P/E	117.5	107.1	85.7	64.6
EV / EBITDA	72.8	64.7	56.2	43.5
EV / Net Sales	12.1	11.3	9.6	7.8
Market Cap / Sales	12.1	11.3	9.7	7.9
Price to Book Value	29.0	22.8	20.8	18.4
Solvency Ratios				
Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	2.0	1.9	2.3	2.2
Quick Ratio	0.8	0.8	1.0	0.9

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,905	2,970	Buy	2,78,590	33.4	36.7	45.4	86.9	79.1	64.0	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnik (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,730	3,130	Buy	8,585	24.7	45.7	88.2	110.5	59.7	30.9	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,080	1,280	Buy	12,279	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	794	835	Hold	77,113	7.4	9.3	12.3	107.1	85.7	64.6	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	398	480	Buy	24,955	9.8	9.2	11.9	40.5	43.5	33.5	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	3,996	4,635	Buy	23,396	27.3	54.8	95.8	146.5	72.9	41.7	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	82	100	Buy	1,854	4.8	8.5	10.8	17.2	9.6	7.6	6.3	5.1	4.3	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	278	320	Buy	11,906	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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