

## High input costs keep EBITDA margin under check...

**About the stock:** Berger Paints is the second largest paint player in India.

- Berger derives ~82% of its topline from the decorative paints while rest comes from the industrial segment. Company has ~13 manufacturing units in India with ~30,000 dealer network across the country
- Strong b/s with RoCE, RoE of 26%, 22% respectively (five-year average)

**Q1FY22 Results:** Strong revival in the decorative paints helped drive performance, however higher raw material costs weigh on gross margin

- Favourable base and a strong demand for decorative paints helped drive revenue up 93% YoY to ~₹ 1799 crore
- Price hikes of about 4%-5% restricted fall in gross margin to ~238bps YoY. However, improved operating leverage drives EBITDA margin up by 337 bps YoY to 13.3%
- PAT jumped ~9.3x YoY to ₹ 141 crore supported by favourable base and strong topline growth

**What should investors do?** Berger's share price has grown by ~3.8x over the past five years (from ~₹ 220 in August 2016 to ~₹ 840 levels in August 2021).

- We maintain our HOLD rating on the stock

**Target Price and Valuation:** We roll over our valuation on FY24 and value Berger at ₹ 860 i.e. 58x P/E on FY24E EPS

**Key triggers for future price performance:**

- Repainting represents ~80% of total decorative paint demand. Gradual reduction in re-painting cycle would drive future paint demand
- Increased focus on the 'water proofing & building chemical' category will continue drive revenue growth for Berger Paints. Water proofing & building chemical industry is pegged at ₹ 6000 crore vs. ₹ 1.5 lakh crore in China
- New product launches and expansion of manufacturing capabilities

**Alternate Stock Idea:** We also like Asian Paints in our coverage universe

- Asian Paints is the market leader in the decorative paint and expanding its product portfolios along dealer expansion in tier II and tier III cities
- BUY with a target price of ₹ 3665



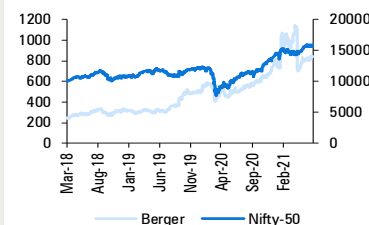
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	79,735.5
Total Debt (FY21) (₹ Crore)	383.8
Cash and Inv (FY21) (₹ Crore)	649.4
EV (₹ Crore)	79,469.9
52 week H/L (₹)	872/547
Equity capital (₹ Crore)	97.1
Face value (₹)	1.0

### Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	75.0	75.0	75.0	75.0	75.0
FII	11.7	11.4	11.5	11.2	11.3
DII	3.0	3.7	3.7	4.1	4.0
Others	10.3	9.9	9.8	9.7	9.7

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Lower than expected growth in the Decorative paints (ii) Delay in passing on high input prices

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (21-24E)
Net Sales	6061.9	6365.8	6817.6	10%	8351.4	9727.8	11320.9	18%
EBITDA	881.6	1061.0	1188.0	13%	1428.1	1741.3	2128.3	21%
EBITDA Margin (%)	14.5	16.7	17.4		17.1	17.9	18.8	
Net Profit	497.5	656.1	719.7	14%	917.9	1154.9	1431.9	26%
EPS (₹)	5.1	6.8	7.4		9.5	11.9	14.7	
P/E (x)	160.3	121.5	110.8		86.9	69.0	55.7	
Price/Book (x)	32.2	30.0	23.6		21.4	19.1	16.2	
Mcap/Sales (x)	13.2	12.5	11.7		9.5	8.2	7.0	
RoE (%)	20.1	24.7	21.3		24.7	27.6	29.2	
RoCE (%)	26.2	26.6	24.9		29.0	33.9	36.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results:

- Favourable base and improved demand post ease in lockdown restrictions helped drive demand for decorative paints. That helped revenue growth of 93% YoY to ~₹ 1799 crore. However, if we compare to pre-Covid level sales, the recovery was 105% of Berger vs. 109% recovery in Asian Paints
- Gross margin declined 238 bps YoY (down 511 QoQ), mainly due to a delay in passing on higher raw material prices. However, improved operating leverage helped drive EBITDA margin up by 337 bps YoY to 13.3%
- PAT grew 9.3x YoY to ₹ 141 crore on a favourable base and higher sales

### Q1FY22 Earnings Conference Call highlights

- Decorative business grew due to people opting for work from home. The management expects decorative business to stay strong
- The company has taken a price hike in the range of 4%-5% in Q1FY22
- Margins were hurt in Q1FY22 due to a sharp increase in input costs
- The management has indicated at further price hikes if input costs continue to rise
- Less exposure to passenger vehicles insulates the company from global shortage of chips in the auto industry
- Berger expects to increase distribution network in FY22 by ~12-13%
- The company expects a pick-up in the real estate industry to drive growth in revenue
- Berger aims to consolidate its position in construction chemical and water proofing business
- Planned Capex of ~₹ 800 crore for FY22
- Advertisement expense as a percentage of sales will remain constant

Exhibit 1: Peer comparison

	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E
Asian Paints	2,84,823	21713	27378	32255	37647	22.4	20.5	21.8	21.8	3206.8	3786.4	4836.6	5672.2	29.6	32.6	36.8	38.2	25.0	27.6	27.6	30.7	88.8	75.2	58.9	50.2
Berger Paints	77,987	6817.6	8351.4	9727.8	11320.9	17.4	17.1	17.9	18.8	719.7	917.9	1154.9	1431.9	24.9	29.0	33.9	36.0	21.3	24.7	24.7	27.6	108.4	85.0	67.5	54.5
Kansai Nero	33,036	4690.0	6395.2	7456.0	8548.3	17.8	16.4	17.4	17.6	531.0	698.0	867.1	1009.9	17.2	21.5	23.4	24.2	13.2	16.6	16.6	18.0	62.2	47.3	38.1	32.7

Source: Bloomberg, ICICI Direct Research

We introduce FY24E estimates with revenue, earnings CAGR of 18%, 26% FY21-24E led by volume CAGR of 15%. We believe strong brand recall of 'Berger' and a healthy balance sheet (RoE, RoCE 21%, 25%) will help the company to recoup its lost sales amid lockdown. While we maintain our positive stance on the stock, we believe the current price is discounting all its near term positives. Hence, we maintain our HOLD rating on the stock. We roll over our valuation on FY24E and value the stock at 58x FY24E earnings.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
<b>Revenue</b>	<b>1,798.5</b>	<b>1,486.0</b>	<b>930.8</b>	<b>93.2</b>	<b>2,026.1</b>	<b>-11.2</b>	Strong growth on a favourable base
Other Income	17.0	8.2	7.8	117.5	15.0	13.5	
Raw Material Exp	1,104.7	869.3	549.5	101.0	1,141.0	-3.2	Higher raw material prices resulted in decline in gross margin by 238 bps YoY (~511 bps QoQ)
Employee Exp	131.0	127.8	116.2	12.8	126.8	3.3	Savings in employee cost by ~520 bps YoY
Other exp	324.3	267.5	172.9	87.5	422.7	-23.3	
Total Exp	1,560.0	1,264.6	838.7	86.0	1,690.5	-7.7	
EBITDA	238.5	221.4	92.1	159.0	335.6	-28.9	
<b>EBITDA Margin (%)</b>	<b>13.3</b>	<b>14.9</b>	<b>9.9</b>	<b>337 bps</b>	<b>16.6</b>	<b>-330 bps</b>	Savings in employee costs helped drive EBITDA margin up 337 bps YoY
Depreciation	54.8	60.1	50.4	8.9	54.2	1.2	
Interest	9.6	6.8	12.4	-22.7	11.9	-19.7	
Exceptional items							
PBT	191.2	162.7	37.2	414.3	284.5	-32.8	
Total Tax	49.8	40.7	17.6	183.0	74.8	-33.3	
<b>PAT</b>	<b>140.5</b>	<b>123.1</b>	<b>15.1</b>	<b>830.9</b>	<b>208.6</b>	<b>-32.7</b>	Strong PAT growth is largely tracking a healthy topline growth and margin expansion
<b>Key Metrics</b>							
Volume growth (%)	90.0	55.0	-42.0		58.0		Favourable base, strong growth in decorative business and water proofing & construction products helps drive volume growth in Q1
Realisation growth (%)	1.7	3.0	-6.5		-5.4		Price hikes of 4.5% in the decorative paints segment helps overall realisation growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY22E			FY23E			FY24E	Comment
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	7976.9	8351.4	4.7	9809.0	9727.8	(0.8)	11,320.9	We tweak our revenue estimates upward for FY22E considering better than expected topline recovery in Q1FY22. We introduce FY24E estimate with volume, value growth of 15% and 18%, respectively
EBITDA	1364.1	1428.1	4.7	1755.8	1741.3	(0.8)	2,128.3	
EBITDA Margin (%)	17.1	17.1	0bps	17.9	17.9	0bps	18.8	We keep our margin estimates largely intact
PAT	900.0	917.9	2.0	1193.1	1154.9	(3.2)	1,431.9	
EPS (₹)	9.3	9.5	2.1	12.3	11.9	(3.2)	14.7	

Source: ICICI Direct Research

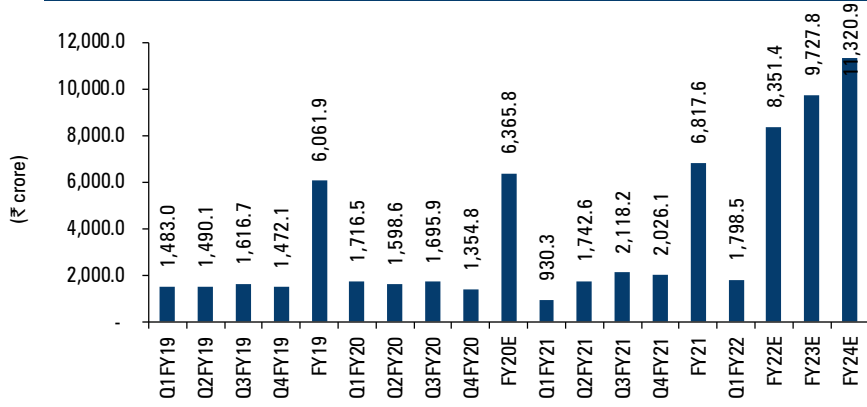
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E	
Volume Gr (%)	16.3	5.6	15.3	13.7	17.2	14.4	13.1	16.2	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 tierII and tier III cities
Realisation Gr (%)	0.9	(1.1)	(7.2)	7.4	(0.6)	1.8	3.2	5.8	

Source: ICICI Direct Research

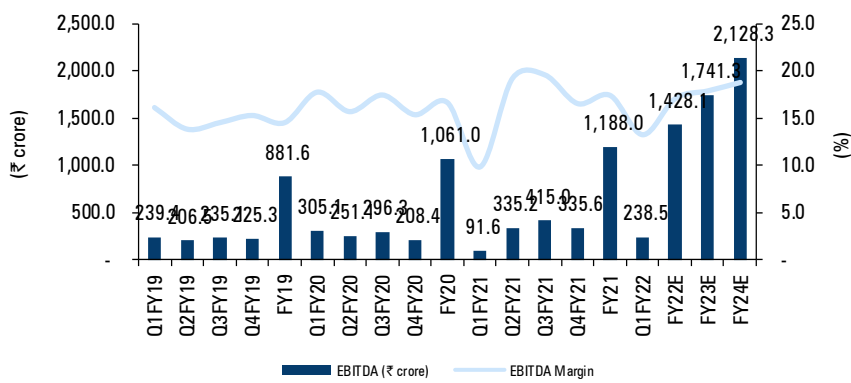
Financial story in charts

Exhibit 5: Revenue trend



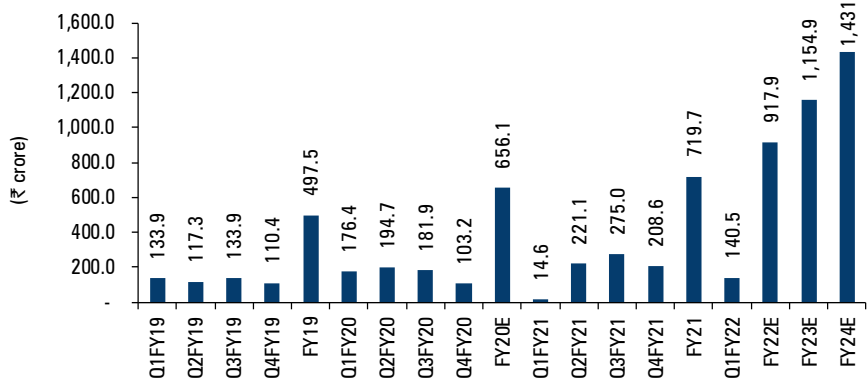
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT movement



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>6,817.6</b>	<b>8,351.4</b>	<b>9,727.8</b>	<b>11,320.9</b>
Growth (%)	7.1	22.5	16.5	16.4
Raw material expens	3,250.9	4,008.7	4,620.7	5,377.4
Cost of traded goods	617.6	835.1	972.8	1,075.5
Employee expenses	485.1	526.1	573.9	622.6
Other expenses	1,275.9	1,553.4	1,819.1	2,117.0
Total Operating Exp	5,629.6	6,923.3	7,986.5	9,192.5
<b>EBITDA</b>	<b>1,188.0</b>	<b>1,428.1</b>	<b>1,741.3</b>	<b>2,128.3</b>
Growth (%)	12.0	20.2	21.9	22.2
Depreciation	211.1	242.2	262.6	300.0
Interest	44.1	21.9	10.0	3.5
Other Income	51.5	66.8	79.8	94.0
PBT	984.2	1,230.8	1,548.4	1,918.8
Total Tax	258.9	310.2	390.2	483.5
<b>PAT</b>	<b>719.7</b>	<b>917.9</b>	<b>1,154.9</b>	<b>1,431.9</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	719.7	917.9	1154.9	1431.9
Add: Depreciation	211.1	242.2	262.6	300.0
(Inc)/dec in Current Assets	-704.1	-43.4	-433.9	-648.2
Inc/(dec) in CL and Provisions	404.8	-194.8	290.0	308.2
Others	44.1	21.9	10.0	3.5
<b>CF from operating activities</b>	<b>675.6</b>	<b>943.8</b>	<b>1283.5</b>	<b>1395.3</b>
(Inc)/dec in Investments	-10.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-259.3	-250.0	-250.0	-350.0
Others	12.8	-20.0	-20.0	-120.0
<b>CF from investing activities</b>	<b>-256.6</b>	<b>-270.0</b>	<b>-270.0</b>	<b>-470.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-152.1	-155.0	-180.0	0.0
Dividend paid & dividend tax	-271.9	-271.9	-699.2	-699.2
Others	224.8	-321.6	-10.0	-3.5
<b>CF from financing activities</b>	<b>-199.2</b>	<b>-748.5</b>	<b>-889.2</b>	<b>-702.7</b>
Net Cash flow	219.7	-74.7	124.3	222.6
Opening Cash	219.9	439.6	364.9	489.3
Closing Cash	439.6	364.9	489.3	711.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	97.1	97.1	97.1	97.1
Reserve and Surplus	3,279.7	3,626.0	4,081.7	4,814.4
Total Shareholders funds	3,376.9	3,723.2	4,178.8	4,911.5
Total Debt	383.8	228.8	48.8	48.8
Other non current liabilities	373.7	373.7	373.7	373.7
<b>Total Liabilities</b>	<b>4,134.4</b>	<b>4,325.7</b>	<b>4,601.3</b>	<b>5,334.0</b>
<b>Assets</b>				
Gross Block	2,552.0	2,802.0	3,052.0	3,402.0
Less: Acc Depreciation	795.5	1,037.7	1,300.3	1,600.3
Total Fixed Assets	1,863.3	1,871.1	1,858.5	1,908.5
Investments	145.9	145.9	145.9	145.9
Inventory	1,616.1	1,670.3	1,945.6	2,264.2
Debtors	1,019.7	961.0	1,066.1	1,333.7
Loans and Advances	39.7	34.3	39.9	46.5
Other CA	237.3	290.7	338.6	394.0
Cash	439.6	364.9	489.3	711.9
Total Current Assets	3,352.5	3,321.2	3,879.4	4,750.3
Creditors	1,497.4	1,258.4	1,492.5	1,736.9
Provisions	54.2	45.5	54.0	62.9
Other CL	235.1	287.9	335.4	390.3
Total Current Liabilities	1,786.7	1,591.9	1,881.9	2,190.1
Net current assets	1,565.8	1,729.3	1,997.6	2,560.2
Other non current assets	559.4	579.4	599.4	719.4
<b>Total Assets</b>	<b>4,134.4</b>	<b>4,325.7</b>	<b>4,601.3</b>	<b>5,334.0</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	7.4	9.5	11.9	14.7
Cash EPS	9.6	11.9	14.6	17.8
BV	34.8	38.3	43.0	50.6
DPS	2.8	2.8	7.2	7.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	17.4	17.1	17.9	18.8
PAT Margin	10.6	11.0	11.9	12.6
Asset Turnover	2.7	3.0	3.2	3.3
Inventory Days	86.5	73.0	73.0	73.0
Debtor Days	54.6	42.0	40.0	43.0
Creditor Days	80.2	55.0	56.0	56.0
<b>Return Ratios (%)</b>				
RoE	21.3	24.7	27.6	29.2
RoCE	24.9	29.0	33.9	36.0
RoIC	29.9	33.3	39.5	43.7
<b>Valuation Ratios (x)</b>				
P/E	108.4	85.0	67.5	54.5
EV / EBITDA	65.4	54.4	44.4	36.2
EV / Net Sales	11.4	9.3	7.9	6.8
Market Cap / Sales	11.4	9.3	8.0	6.9
Price to Book Value	23.1	20.9	18.7	15.9
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.9	2.3	2.2	2.2
Quick Ratio	0.8	1.0	0.9	1.0

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct 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)	2,976	3,665	Buy	2,85,398	33.4	39.5	50.4	89.0	75.3	59.0	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,067	2,160	Hold	31,142	20.3	21.9	29.0	101.9	94.5	71.4	63.9	60.0	46.1	27.5	26.9	31.1	21.5	20.8	23.7
Amber Enterprises (AMBEN)	2,865	3,365	Buy	9,009	24.7	43.3	87.7	116.9	66.8	32.9	41.0	30.3	17.5	7.7	11.1	18.3	5.2	8.8	15.2
Bajaj Electricals (BAJELE)	1,112	1,280	Buy	12,642	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)	821	860	Hold	79,736	7.4	9.5	11.9	110.8	86.9	69.0	65.4	54.4	44.4	24.9	29.0	33.9	21.3	24.7	27.6
Crompton Greaves(CROGR)	466	540	Buy	29,218	9.8	9.2	11.9	47.4	50.9	39.3	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,284	5,050	Buy	25,083	27.3	52.3	97.4	157.1	81.9	44.0	89.8	54.6	31.1	23.5	34.6	47.4	21.7	33.9	41.7
EPL (ESSPRO)	241	275	Hold	7,604	7.7	9.2	11.4	31.1	26.1	21.2	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,225	1,345	Buy	76,428	16.7	18.8	24.3	73.5	61.3	50.4	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	623	750	Buy	33,575	9.9	13.0	16.1	63.9	48.6	39.2	40.8	32.5	26.2	17.2	21.5	23.4	13.2	16.6	18.0
Moldtek Packaging (MOLPLA)	506	675	Buy	1,403	17.3	22.5	30.6	29.5	22.8	16.7	16.1	12.6	9.7	21.4	24.8	29.1	20.7	21.9	24.1
Pidilite Industries (PIDIND)	2,226	2,035	Hold	1,13,036	22.2	26.3	31.8	100.4	84.6	70.0	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,823	2,100	Hold	28,138	59.4	59.2	77.7	31.8	31.9	24.3	23.3	21.5	16.6	21.9	21.1	24.2	18.5	16.5	18.5
Supreme Indus (SUPIND)	2,081	2,450	Buy	26,434	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	912	1,050	Hold	6,380	15.3	20.8	33.0	64.9	47.8	30.9	48.7	37.6	24.3	15.2	22.1	31.8	14.9	21.1	30.1
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	240	310	Buy	10,279	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)	998	1,170	Buy	33,007	16.0	22.0	28.8	63.2	45.9	35.1	51.4	40.9	30.4	15.0	20.2	22.8	10.6	14.9	17.0

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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