

High input cost weighs on margin...

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

- Berger derives ~80-85% of its topline from decorative paints while the rest comes from the industrial segment. It has ~13 manufacturing units in India with ~50,000 dealer network (FY22) across India
- Strong b/s with RoCE, RoE of 26%, 22%, respectively, (five-year average)

Q2FY23 Results: Volume led topline growth, delay in price hikes dented margins.

- Revenue increased 20% YoY to ~₹ 2671 crore in Q2FY23 driven by 11% volume growth in the decorative paints segment
- Gross margin declined 300 bps YoY due to a change in product mix and delay in price hikes. However, better operating leverage restricted the EBITDA margin fall by 228 bps YoY to 13.6%
- PAT remained flat on a YoY basis at ~₹ 219 crore due to lower EBITDA margin and higher interest outgo

What should investors do? Berger's share price has given ~140% return over the past five years (from ~₹ 249 in November 2017 to ~₹ 598 levels in November 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value Berger at ₹ 670 i.e. 55x P/E on FY24E EPS.

Key triggers for future price performance:

- Repainting represents ~80% of total decorative paint demand. Gradual reduction in repainting cycle would drive future paint demand
- Increased focus on the 'water proofing & building chemical' category will continue to drive revenue growth for Berger. 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 like Asian Paints (APL) in our coverage universe. APL is India's largest decorative paint company. The company derives ~98% revenue from the paints business. Robust b/s with RoCE, RoE of 30%, 25%, respectively.

- BUY with a target price of ₹ 3685



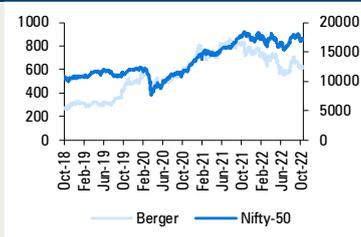
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	58,077.8
Total Debt (FY22) (₹ Crore)	667.9
Cash and Inv (FY22) (₹ Crore)	400.2
EV (₹ Crore)	58,345.5
52 week H/L (₹)	813/544
Equity capital (₹ Crore)	97.1
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	75.0	75.0	75.0	75.0	75.0
FII	11.2	11.3	11.3	11.0	11.1
DII	3.9	3.6	3.4	3.6	3.2
Others	9.9	10.1	10.3	10.4	10.7

Price Chart



Recent event & key risks

- Key Risk:** (i) Strong growth in decorative paints (ii) Higher advertisement expenses may restrict EBITDA margins expansion

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Ashwi Bhansali
ashwi.bhansali@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (17-22)	FY23E	FY24E	2 Year CAGR (22-24E)
Net Sales	6061.9	6365.8	6817.6	8761.8	14%	10629.3	11701.4	16%
EBITDA	881.6	1061.0	1188.0	1331.1	13%	1589.1	1837.1	17%
EBITDA Margin (%)	14.5	16.7	17.4	15.2		15.0	15.7	
Net Profit	497.5	656.1	719.7	833.0	12%	999.6	1184.4	19%
EPS (₹)	5.1	6.8	7.4	8.6		10.3	12.2	
P/E (x)	116.8	88.5	80.7	69.7		58.1	49.0	
Price/Book (x)	23.5	21.8	17.2	14.8		15.1	13.4	
Mcap/Sales (x)	9.6	9.1	8.5	6.6		5.5	5.0	
RoE (%)	20.1	24.7	21.3	21.2		26.0	27.3	
RoCE (%)	26.2	26.6	24.9	23.3		28.8	30.9	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong volume growth drives topline

- Berger reported strong revenue growth of ~20% YoY to ~₹ 2671 on the back of improved demand traction from both Industrial and Decorative paints. Decorative paint volumes increased 11% YoY. The company has launched new products and has substantially expanded its dealer and distribution network
- On a three-year basis, revenue grew at a CAGR of ~19%
- The gross margin declined 300 bps YoY due to delayed price hikes and change in product mix. However, savings in other operating costs restricted EBITDA margin fall by 228 bps YoY to 13.6%
- PAT remained flat on a YoY basis at ~₹ 219 crore due to fall in EBITDA margin and higher interest outgo

Q2FY23 Earnings Conference Call highlights

- Berger's market share has increased to 18.8% in H1FY23 against 18% in FY22 led by network expansion and topline growth. The company has added more than 6000 sales points and 3000+ tinting machines in H1FY23 and plans to add a similar number in H2FY23
- In Q2FY23, demand was led by urban markets while demand from rural markets remained subdued. The company saw volume growth of ~11% YoY. The management expects a further uptick in urban demand as well as demand from rural markets on the back of good monsoon and mix improvement
- The company introduced three new products in Q2FY23, one in the decorative paints segment and two in the waterproofing segment
- On the industrial side, the company is seeing a pickup in demand led by a revival in the auto industry
- Berger is the market leader in protective coatings. The company has taken significant price hikes in this area in Q2 and expects an improvement in profitability in Q3FY23
- Powder coatings business line saw negative growth, impacted by the slowdown in the business of fan manufacturers due to change in regulatory norms. However, this business does not have a significant contribution in the company's topline
- The company has taken a few price increases in line with the industry
- The management expects expansion in gross margin to ~38% in Q3FY23 as a result of softening raw material prices as well as better product mix. In Q3 and Q4, the company expects to see higher sales of exterior wall coatings and water proofing items, which have high gross margin
- The company has set up a new facility in Sandila, Uttar Pradesh with an estimated outlay of ~₹ 1000 crore to commence commercial production for water base, solvent base, putty, stainer colorant and resin. Production from this facility is expected to start from December 2022. Total ~33% capacity expansion is expected as a result
- Berger has also acquired 30 acres of land in Panagarh, West Bengal for manufacture of construction chemicals, resin and industrial products with an estimated outlay of ~₹ 175 crore. The company is also undertaking brownfield expansions in Hindupur for solvent and resin and Rishra for emulsions and water-based expansion and are expected to be ready by next year

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints	2,92,975	21713	29101	34685	40371	22	17	17	19	3207	3085	3914	5194	30	27	32	39	25	23	27	32	91	95	75	56
Berger Paints	58,084	6818	8762	10629	11701	17	15	15	16	720	833	1000	1184	25	23	29	31	21	21	26	27	81	70	58	49
Kansai Nero	24,144	4771	5949	7318	8163	18	11	12	14	531	374	545	696	17	12	17	20	13	9	13	15	46	64	44	35
Pidilite Ind	1,35,126	7293	9921	12055	13429	23	19	18	23	1126	1207	1454	2091	24	22	25	31	20	19	21	25	120	112	93	65
Sheela Foam	13,668	2435	2982	3275	3724	15	11	12	13	238	217	264	333	24	18	21	23	20	16	17	19	57	63	52	41

Source: Bloomberg, ICICI Direct Research

We believe, Berger Paints Q2FY23 revenue growth at 20% largely in line with peers (Asian Paints: 19%, Kansai Nerolac 19.3%). The volume growth at ~11% is slightly better than industry leader, as Berger Paints gained market share by ~80 bps in H1FY23. Company has witnessed strong growth in Tier II and Tier III cities led by dealer expansions and new product launches. Company's dealer count has increased by 6233 to ~56,233 by the end of H1FY23 from 36,000 in FY19 (i.e. up 56%). However, the EBITDA margin remain depressed in Q2 (both on a YoY & QoQ basis) mainly due to adverse product mix and delay in price hikes. The exit EBITDA margin of 13.6% is still lower than its pre-covid level margin of ~18%. Going forward, while the management has reiterated its double digit volume growth guidance for FY23, the gross margin guidance of ~38% is lower than its pre-covid gross margin range of ~40-41%. We believe Berger Paints has to increase expenditure (in terms of discounts/marketing) in order to combat with deep pocketed new entrants such as Grasim, JK Cement, Astral Ltd. On the topline front, we build in revenue CAGR of 16% in FY22-24E vs. 18% CAGR of Asian Paints (considering market share gains by Asian Paints in F22). We value Berger Paint at 55x FY24E earnings (~20% discount to Asian Paints) with a revised target price of ₹ 670/share and maintain our HOLD rating on the stock. With increased competitive intensity we turned cautious on the paint sector for the medium term. We believe established paint players will have to sacrifice profitability in order to maintain market share, which will limit their bottom-line growth.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	2,670.9	2,684.9	2,225.0	20.0	2,759.7	-3.2	Revenue growth driven by strong volume growth in Q2
Other Income	12.6	13.6	13.0	-3.2	13.0	-3.5	
Raw Material Exp	1,728.1	1,691.5	1,372.7	25.9	1,773.1	-2.5	Gross margin declined by ~300 bps YoY mainly due to change in product mix and delay in price hikes
Employee Exp	160.4	147.7	141.9	13.0	146.0	9.8	
Other exp	418.5	456.4	356.4	17.4	435.7	-3.9	
Total Exp	2,307.0	2,295.6	1,871.0	23.3	2,354.9	-2.0	
EBITDA	364.0	389.3	354.0	2.8	404.8	-10.1	
EBITDA Margin (%)	13.6	14.5	15.9	-228 bps	14.7	-104 bps	Savings in other operating costs help restrict EBITDA margin fall at 228 bps YoY
Depreciation	62.5	66.6	55.9	11.8	62.8	-0.5	
Interest	24.1	15.2	12.7	90.2	16.3	48.3	
Exceptional items							
PBT	289.9	321.2	298.4	-2.8	338.8	-14.4	
Total Tax	73.5	80.3	79.2	-7.2	88.6	-17.0	
PAT	219.5	244.3	219.2	0.1	253.7	-13.5	Higher interest outgo and lower EBITDA margin drag PAT

Key Metrics

Volume growth (%)	11.0	8.0	21.5		36.0		Strong demand of both decorative and industrial paints drive overall volume growth in Q2
Realisation growth (%)	8.1	11.7	5.5		12.8		Price hike of ~22% in the last one year helped drive realisation in Q2

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	10375.2	10629.3	2.4	11438.9	11701.4	2.3	We tweak our revenue estimates upward for FY23E-24E supported by market share gains and capacity expansion. We build in revenue volume, value CAGR of 13%, 16%, respectively, for FY22-24E
EBITDA	1514.8	1589.1	4.9	1830.2	1837.1	0.4	
EBITDA Margin (%)	14.6	15.0	35bps	16.0	15.7	-30bps	We keep our EBITDA margin estimate largely intact considering higher advertisement expenditure
PAT	962.4	999.6	3.9	1195.0	1184.4	(0.9)	
EPS (\₹)	9.9	10.3	3.9	12.3	12.2	(0.9)	

Source: ICICI Direct Research

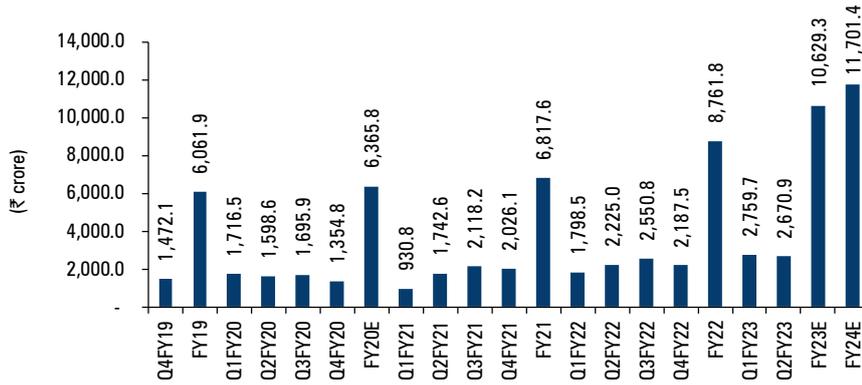
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Volume Gr (%)	16.3	5.6	15.3	19.7	15.1	11.3	13.3	12.0	We maintain our volume growth estimate at 13% over FY22-24E supported by capacity addition, focus on new product categories (such as construction chemicals) and dealer additions tier II and tier III cities
Realisation Gr (%)	0.9	(1.1)	(7.2)	7.4	5.2	(1.1)	4.1	(1.6)	

Source: ICICI Direct Research

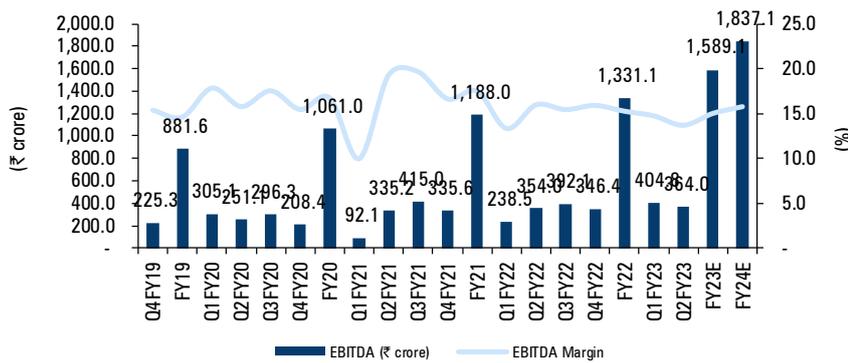
Financial story in charts

Exhibit 5: Revenue trend



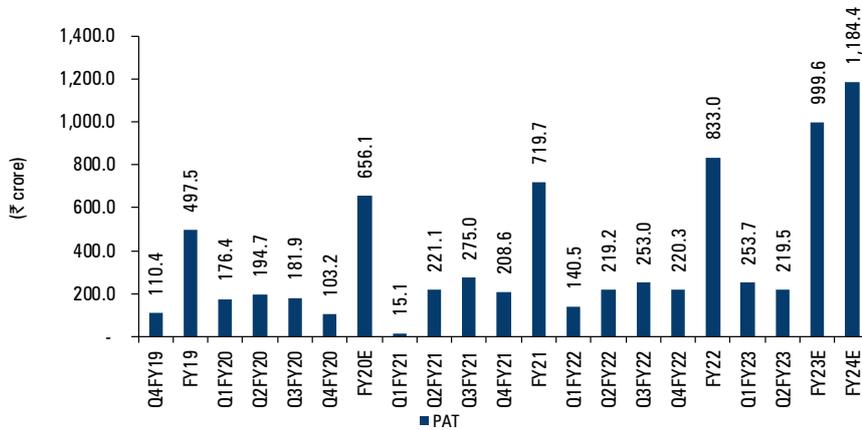
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
Revenue	6,817.6	8,761.8	10,629.3	11,701.4
Growth (%)	7.1	28.5	21.3	10.1
Raw material expense	3,250.9	4,665.3	5,793.0	6,201.7
Cost of traded goods	617.6	763.8	988.5	1,041.4
Employee expenses	485.1	543.1	611.2	631.9
Other expenses	1,275.9	1,458.5	1,647.5	1,989.2
Total Operating Exp	5,629.6	7,430.7	9,040.2	9,864.2
EBITDA	1,188.0	1,331.1	1,589.1	1,837.1
Growth (%)	12.0	12.0	19.4	15.6
Depreciation	211.1	226.5	249.8	257.4
Interest	44.1	50.7	76.0	68.7
Other Income	51.5	64.6	53.1	52.7
PBT	984.2	1,118.4	1,316.5	1,563.6
Total Tax	258.9	289.3	331.8	394.0
PAT	719.7	833.0	999.6	1,184.4

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	719.7	833.0	999.6	1184.4
Add: Depreciation	211.1	226.5	249.8	257.4
(Inc)/dec in Current Assets	-704.1	-744.4	-61.7	-407.1
Inc/(dec) in CL and Provisions	404.8	418.5	273.6	250.0
Others	44.1	50.7	76.0	68.7
CF from operating activities	675.6	784.3	1537.2	1353.4
(Inc)/dec in Investments	-10.1	-1.2	0.0	0.0
(Inc)/dec in Fixed Assets	-259.3	-880.0	-250.0	-350.0
Others	12.8	19.6	-20.0	-120.0
CF from investing activities	-256.6	-861.6	-270.0	-470.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-152.1	284.2	-100.0	-30.0
Dividend paid & dividend tax	-271.9	-361.3	-699.3	-699.3
Others	224.8	27.7	-454.1	-68.7
CF from financing activities	-199.2	-49.4	-1,253.4	-798.0
Net Cash flow	219.7	-126.7	13.8	85.4
Opening Cash	219.9	439.6	313.0	326.8
Closing Cash	439.6	313.0	326.8	412.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	97.1	97.1	97.1	97.1
Reserve and Surplus	3,279.7	3,829.9	3,752.0	4,237.1
Total Shareholders funds	3,376.9	3,927.0	3,849.1	4,334.3
Total Debt	383.8	667.9	567.9	537.9
Other non current liabilities	373.7	412.6	412.6	412.6
Total Liabilities	4,134.4	5,007.5	4,829.7	5,284.8
Assets				
Gross Block	2,552.0	2,933.3	3,183.3	3,533.3
Less: Acc Depreciation	795.5	1,022.0	1,271.8	1,529.2
Total Fixed Assets	1,863.3	2,516.8	2,517.0	2,609.5
Investments	145.9	147.1	147.1	147.1
Inventory	1,616.1	2,315.8	2,125.9	2,340.3
Debtors	1,019.7	1,053.7	1,223.1	1,378.5
Loans and Advances	39.7	0.0	0.0	0.0
Other CA	237.3	287.7	370.0	407.3
Cash	439.6	313.0	326.8	412.2
Total Current Assets	3,352.5	3,970.2	4,045.7	4,538.2
Creditors	1,497.4	1,802.9	2,038.5	2,244.1
Provisions	54.2	51.6	73.8	81.2
Other CL	235.1	350.6	366.5	403.4
Total Current Liabilities	1,786.7	2,205.1	2,478.7	2,728.7
Net current assets	1,565.8	1,765.0	1,567.0	1,809.5
Other non current assets	559.4	578.7	598.7	718.7
Total Assets	4,134.4	5,007.5	4,829.7	5,284.8

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	7.4	8.6	10.3	12.2
Cash EPS	9.6	10.9	12.9	14.8
BV	34.8	40.4	39.6	44.6
DPS	2.8	3.7	7.2	7.2
Operating Ratios (%)				
EBITDA Margin	17.4	15.2	15.0	15.7
PAT Margin	10.6	9.5	9.4	10.1
Asset Turnover	2.7	3.0	3.3	3.3
Inventory Days	86.5	96.5	73.0	73.0
Debtor Days	54.6	43.9	42.0	43.0
Creditor Days	80.2	75.1	70.0	70.0
Return Ratios (%)				
RoE	21.3	21.2	26.0	27.3
RoCE	24.9	23.3	28.8	30.9
RoIC	29.9	28.6	36.5	40.0
Valuation Ratios (x)				
P/E	80.7	69.7	58.1	49.0
EV / EBITDA	48.7	43.8	36.6	31.6
EV / Net Sales	8.5	6.7	5.5	5.0
Market Cap / Sales	8.5	6.6	5.5	5.0
Price to Book Value	17.2	14.8	15.1	13.4
Solvency Ratios				
Debt / Equity	0.1	0.2	0.1	0.1
Current Ratio	1.9	2.0	1.8	1.8
Quick Ratio	0.8	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	2,92,975	33.4	32.2	40.8	54.2	91.4	95.0	74.8	56.4	59.4	60.4	49.8	38.3	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	58,084	7.4	8.6	10.3	12.2	80.7	69.7	58.1	49.0	48.7	43.8	36.6	31.6	24.9	23.3	28.8	30.9	21.3	21.2	26.0	27.3
Kansai Nerolac (KANNER)	Hold	24,144	9.8	6.9	10.1	12.9	45.5	64.5	44.3	34.7	28.6	37.2	26.9	21.4	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,35,126	22.2	23.8	28.6	41.2	120.0	112.0	92.9	64.6	80.2	73.0	61.8	43.9	23.8	22.2	24.6	30.8	20.2	18.8	20.6	25.4
Sheela Foam (SHEFOA)	Buy	13,668	48.7	44.5	54.1	68.2	57.5	62.9	51.8	41.1	37.8	44.1	35.8	28.4	24.3	18.0	20.5	23.5	20.1	15.6	17.1	19.2
Bajaj Electricals (BAJELE)	Hold	13,300	16.5	10.8	23.2	36.4	70.2	106.9	49.8	31.8	44.7	52.8	32.8	23.4	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves(CROGR)	Hold	22,251	9.8	9.2	8.9	11.1	36.1	38.5	39.8	31.9	29.4	29.0	25.7	21.3	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	77,411	16.7	19.1	17.6	27.1	74.2	64.8	70.0	45.7	48.7	42.8	46.7	31.8	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	40,439	59.3	61.4	76.3	86.8	45.6	44.1	35.4	31.2	35.6	31.1	22.7	20.1	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	5,883	15.3	17.3	26.1	34.8	55.0	48.6	32.2	24.2	41.0	35.4	24.7	18.6	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	11,350	4.7	5.3	5.3	7.1	56.2	49.7	49.9	37.3	35.5	33.4	32.2	24.3	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	27,418	16.0	15.3	16.1	23.0	51.9	54.2	51.3	36.0	42.0	39.3	38.5	27.4	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,863	24.7	33.0	45.7	73.7	82.4	61.7	44.6	27.6	30.9	26.2	20.6	15.2	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	26,933	27.3	32.1	57.9	85.4	166.4	141.5	78.4	53.2	94.0	71.4	44.1	32.1	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	30,753	77.0	76.2	63.1	80.4	31.4	31.8	38.4	30.1	23.4	24.3	26.5	20.5	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	41,422	20.3	24.4	25.8	35.9	101.5	84.5	80.0	57.4	63.6	54.1	47.7	36.3	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1
Time Techno (TIMTEC)	BUY	2,329	4.8	8.5	10.1	13.1	21.6	12.1	10.2	7.9	7.5	6.1	5.2	4.4	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5
Moldtek Packaging (MOLPLA)	Hold	2,890	17.2	20.4	26.7	34.4	50.6	42.7	32.6	25.3	31.6	24.2	19.4	15.4	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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