

16 May 2024

India | Equity Research | Q4FY24 results review

Berger Paints

Consumer Staples & Discretionary

Low probability of market share gains in FY25-26 with rising competitive pressures

Similar to peers, Berger Paints (Berger) has reported double-digit volume growth (13.9%) in Q4FY24 but value growth was dismal at 3.1% YoY. We believe higher sales of tile adhesives, putty and entry-levels products is resulting in higher volume growth. Launch of innovative products and distribution expansion have led to market share gains in FY24. However, we believe it may be tough to gain market share in FY25-26E, considering there will be steep competition from new players and existing players also plan to step up investments. Berger's Q4FY24 EBITDA margin was lower than its target margin band of 15-17%. We note there are multiple headwinds to margins such as: (1) Steep competitive pressures resulting in price cuts and higher trade/ media spends and (2) likely inflationary pressures in input prices. We model Berger's EBITDA margin to contract to 14.8% in FY26E from 16.6% in FY24.

We maintain our stance of 'Avoid large cap paint companies as they are likely to be more impacted post increase in competitive pressures'. Maintain **REDUCE**.

Q4FY24 result

Berger reported revenue and PAT growth of 3.1% and 19.6%, respectively YoY. While EBITDA declined 4.8% YoY, higher income from associates led to increase in PAT. Volume growth in decorative segment was 13.9% YoY. Reduction in selling prices by ~4% in H2FY24 led to lower margins. Higher revenues in tile adhesives and admixtures led to higher volume growth.

Strong investments in distribution expansion

The company had added 7,300+ retail outlets in FY24 and had also installed 7,100+ colorbank machines. It also plans to add ~8,000 colorbank machines in FY25. It has also taken steps to reach out to influencers and has invested in multiple digital initiatives to increase the connect with channel partners as well as influencers.

Industrial business did well in FY24

Industrial business reported healthy growth rates and also improved profitability. Berger maintained market leadership in protective coatings. There was strong uptick in powder coatings, too, with revival in fans segment. Higher two-wheeler demand led to increase in automotive and general industrial paints. We model industrial paints to drive healthy growth in FY25E led by revival in infra spends and capex cycle.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,05,678	1,11,989	1,20,785	1,33,551
EBITDA	14,872	18,613	18,420	19,749
EBITDA Margin (%)	14.1	16.6	15.3	14.8
Net Profit	8,594	11,678	11,851	13,040
EPS (INR)	7.4	10.0	10.2	11.2
EPS % Chg YoY	3.2	35.9	1.5	10.0
P/E (x)	65.8	48.4	47.7	43.3
EV/EBITDA (x)	38.4	30.3	30.2	27.8
RoCE (%)	18.6	20.4	18.1	17.5
RoE (%)	21.8	25.3	22.2	21.2

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Market Data

Market Cap (INR)	566bn
Market Cap (USD)	6,772mn
Bloomberg Code	BRGR IN
Reuters Code	BRGR.BO
52-week Range (INR)	680 /478
Free Float (%)	24.0
ADTV-3M (mn) (USD)	7.2

Price Performance (%)	3m	6m	12m
Absolute	(12.3)	(15.7)	(7.5)
Relative to Sensex	(13.6)	(26.8)	(24.6)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.3)	(6.2)
EBITDA	(6.2)	(7.1)
EPS	(3.6)	(4.5)

Previous Reports

07-02-2024: [Q3FY24 results review](#)

03-11-2023: [Q2FY24 results review](#)

Expansion in production capacities

The company has currently installed capacity of 1.27mn MT. After commencing Sandila, UP plant, it plans to set up facilities in Panagarh, West Bengal and Khordha, Odisha. It had also conducted brownfield expansion at some manufacturing units in FY24.

Expect recovery Q2FY25 onwards

The company expects volume growth to remain in double digits in Q1FY25 as well as FY25. However, value growth is likely to be in single digits. Industrial paints may maintain profitability. The demand is likely to recover post elections. Expectation of normal monsoon also augurs well in driving rural growth in H2FY25.

Valuation

We model Berger to report revenue and PAT CAGRs of 9.2% and 5.7%, respectively, over FY24-26E. We believe increase in competitive pressures post Grasim's entry is likely to impact industry profit pool and thus valuation multiples. Maintain **REDUCE** with a revised DCF-based TP of INR 450 (prior: INR 520; implied P/E of 40x on FY26E EPS).

Key risks: Steep correction in commodity prices and lower than expected competitive pressure.

Exhibit 1: Q4FY24 financial performance (consolidated)

INR mn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	FY24	FY23	% YoY
Net revenues	25,203	24,436	3.1	28,818	(12.5)	1,11,989	1,05,678	6.0
Raw materials	14,954	14,702	1.7	16,981	(11.9)	66,460	67,305	(1.3)
% of sales	59%	60%	-83 bps	59%	41 bps	59%	64%	-435 bps
Employee costs	1,744	1,547	12.7	1,815	(3.9)	7,130	6,092	17.0
% of sales	6.9%	6.3%	59 bps	6.3%	62 bps	0.0%	0.0%	692 bps
Other expenditure	4,996	4,500	11.0	5,222	(4.3)	19,786	17,409	13.7
% of sales	20%	18%	141 bps	18%	170 bps	18%	16%	335 bps
Total expenditure	21,694	20,749	4.6	24,018	(9.7)	93,376	90,806	2.8
EBITDA	3,509	3,688	(4.8)	4,800	(26.9)	18,613	14,872	25.2
EBITDA margin (%)	13.9%	15.1%	-117 bps	16.7%	-274 bps	19.9%	16.4%	-246 bps
Other income	159	151	5.4	189	(16.2)	637	516	23.5
PBDIT	3,668	3,838	(4.4)	4,990	(26.5)	19,250	15,388	25.1
Depreciation	869	744	16.8	829	4.8	3,309	2,640	25.3
PBIT	2,799	3,094	(9.6)	4,161	(32.7)	15,941	12,747	25.1
Interest	178	293	(39.1)	196	(9.1)	783	992	(21.1)
PBT	2,620	2,801	(6.5)	3,965	(33.9)	15,159	11,755	29.0
Tax	714	719	(0.7)	977	(26.9)	3,871	3,019	28.2
% of PBT	27%	26%	159 bps	25%	262 bps	26%	26%	157 bps
Extraordinary	(11)	(43)		133		223	44	
PAT	1,895	2,039	(7.1)	3,121	(39.3)	11,511	8,779	31.1
Minority/ Share in associates	315	(225)	-	9	3,441.6	390	(141)	-
Reported PAT	2,210	1,814	21.8	3,130	(29.4)	11,901	8,638	37.8
Adjusted PAT	2,221	1,857	19.6	2,997	(25.9)	11,678	8,594	35.9

Source: Company data, I-Sec research

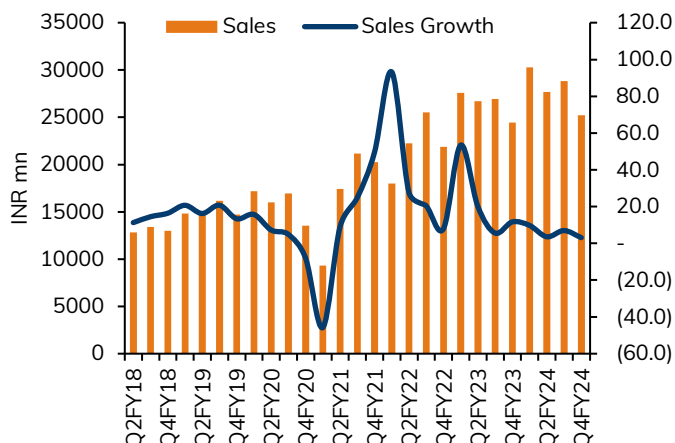
Exhibit 2: Q4FY24 financial performance (standalone)

INR mn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	FY24	FY23	% YoY
Net revenues	22,491	21,893	2.7	25,742	(12.6)	1,00,029	94,706	5.6
Raw materials	13,437	13,213	1.7	15,356	(12.5)	60,033	60,871	(1.4)
% of sales	60%	60%	-61 bps	60%	9 bps	60%	64%	-426 bps
Employee costs	1,290	1,154	11.8	1,367	(5.6)	5,373	4,581	17.3
% of sales	6%	5%	46 bps	5%	42 bps	5%	5%	53 bps
Other expenditure	4,513	4,101	10.1	4,724	(4.5)	17,907	15,795	13.4
% of sales	20%	19%	134 bps	18%	172 bps	18%	17%	122 bps
Total expenditure	19,240	18,468	4.2	21,446	(10.3)	83,313	81,248	2.5
EBITDA	3,251	3,425	(5.1)	4,296	(24.3)	16,717	13,458	24.2
EBITDA margin (%)	14.5%	15.6%	-119 bps	16.7%	-223 bps	16.7%	14.2%	25 bps
Other income	134	128	5.0	164	(18.0)	574	772	(25.5)
PBDIT	3,386	3,553	(4.7)	4,460	(24.1)	17,291	14,230	21.5
Depreciation	779	666	17.0	745	4.6	2,970	2,340	26.9
PBIT	2,607	2,888	(9.7)	3,715	(29.8)	14,321	11,890	20.4
Interest	147	259	(43.4)	161	(8.9)	647	863	(25.1)
PBT	2,460	2,629	(6.4)	3,554	(30.8)	13,675	11,027	24.0
Tax	644	667	(3.3)	921	(30.1)	3,524	2,743	28.5
% of PBT	26%	25%	83 bps	26%	26 bps	26%	25%	89 bps
PAT	1,816	1,962	(7.5)	2,633	(31.0)	10,150	8,284	22.5
Extraordinary items	2	(23)		4		2	(6)	
Reported PAT	1,818	1,939	(6.3)	2,636	(31.1)	10,152	8,278	22.6
Adjusted PAT	1,816	1,954	(7.1)	2,633	(31.0)	10,150	8,284	22.5

Source: Company data, I-Sec research

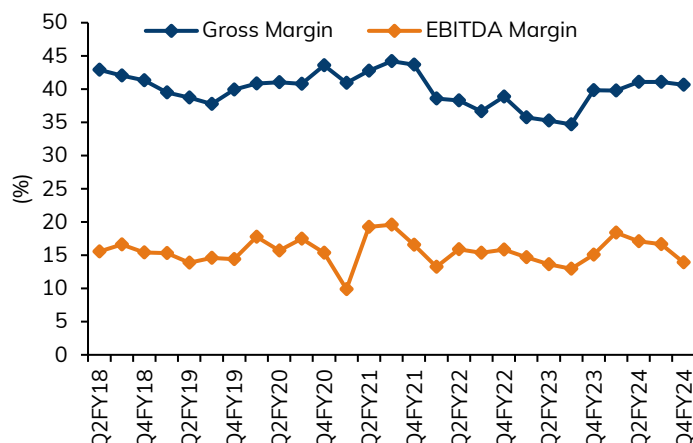
Quarterly operational highlights (consolidated)

Exhibit 3: Revenue and growth rates



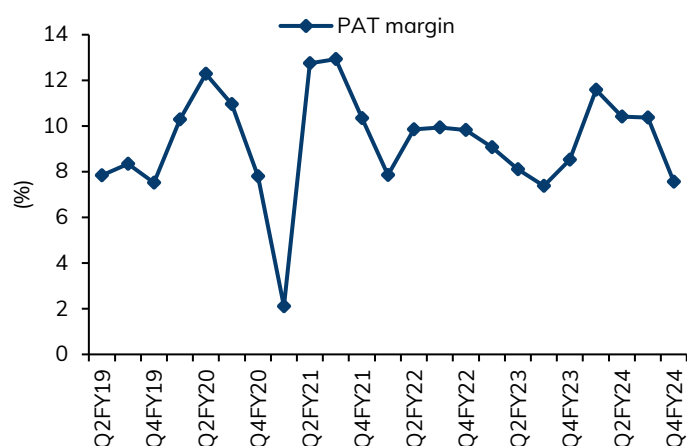
Source: Company data, I-Sec research

Exhibit 4: Gross and EBITDA margins



Source: Company data, I-Sec research

Exhibit 5: PAT margin



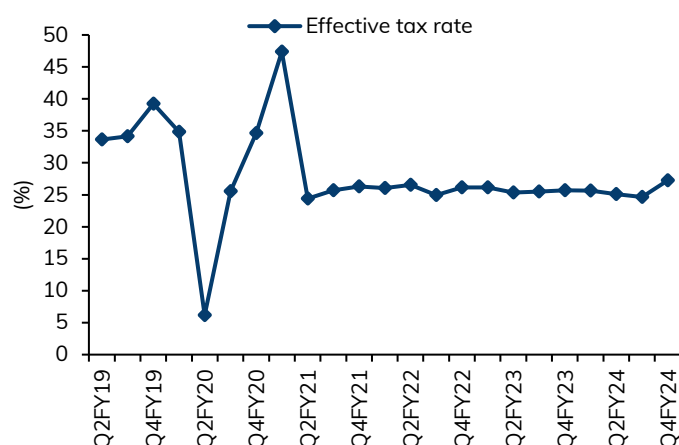
Source: Company data, I-Sec research

Exhibit 6: COGS as % of net sales



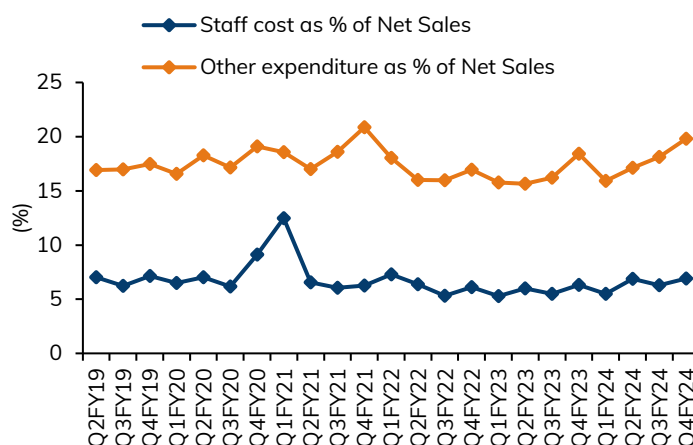
Source: Company data, I-Sec research

Exhibit 7: Effective tax rate



Source: Company data, I-Sec research

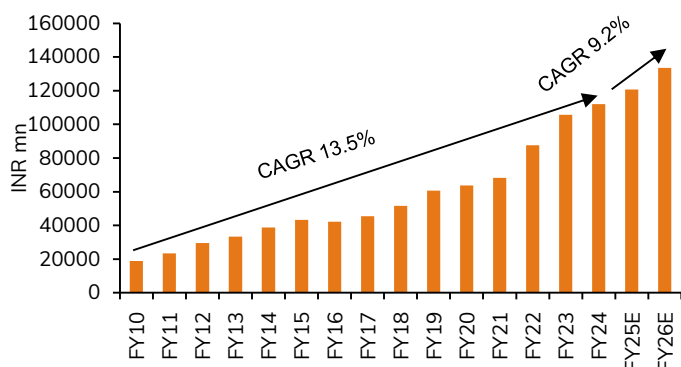
Exhibit 8: Staff cost and other expenditure



Source: Company data, I-Sec research

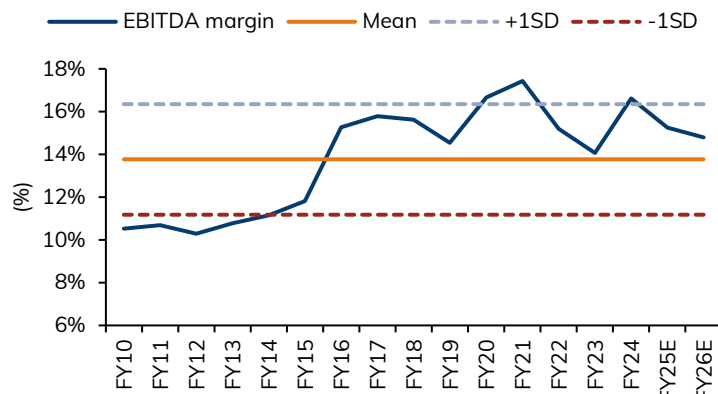
Annual operational highlights (consolidated)

Exhibit 9: Revenue and growth rates



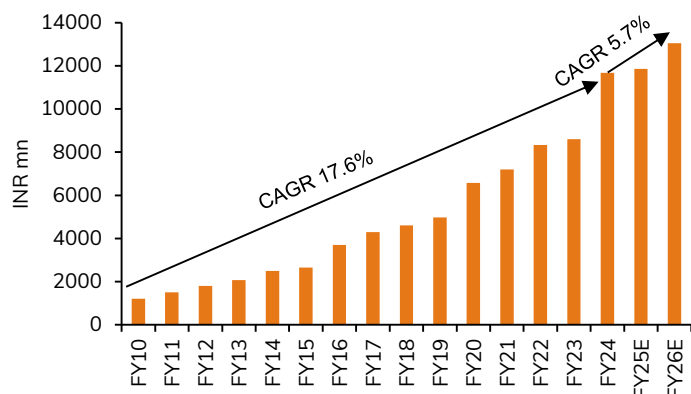
Source: Company data, I-Sec research

Exhibit 10: EBITDA margin



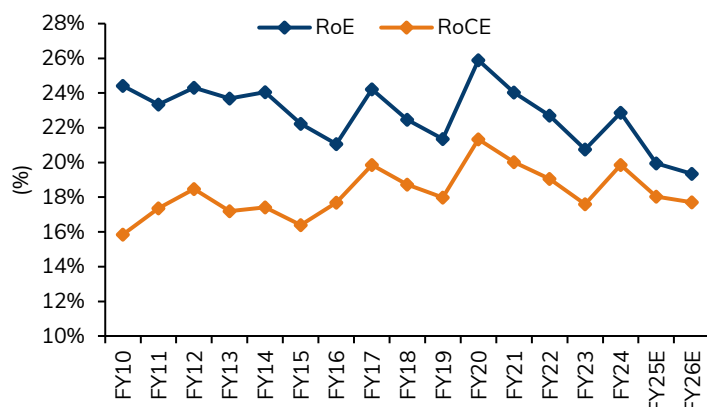
Source: Company data, I-Sec research

Exhibit 11: PAT and growth rates



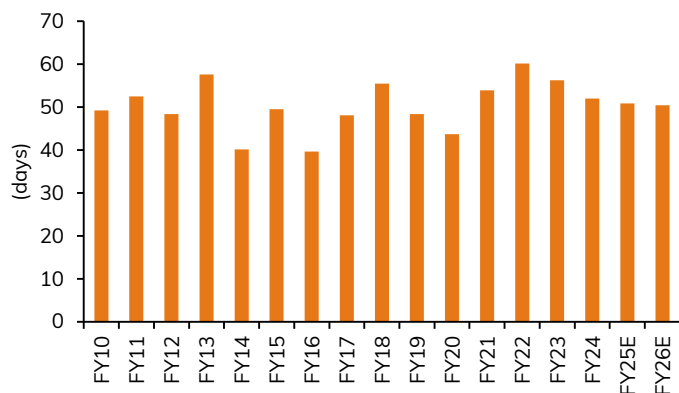
Source: Company data, I-Sec research

Exhibit 12: RoE and RoCE



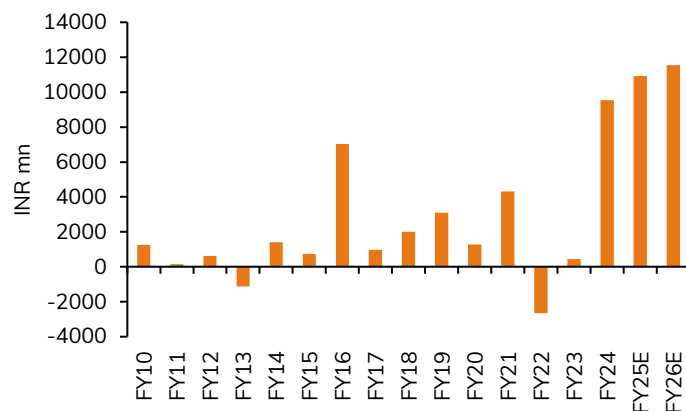
Source: Company data, I-Sec research

Exhibit 13: Net working capital days



Source: Company data, I-Sec research

Exhibit 14: Free cashflow



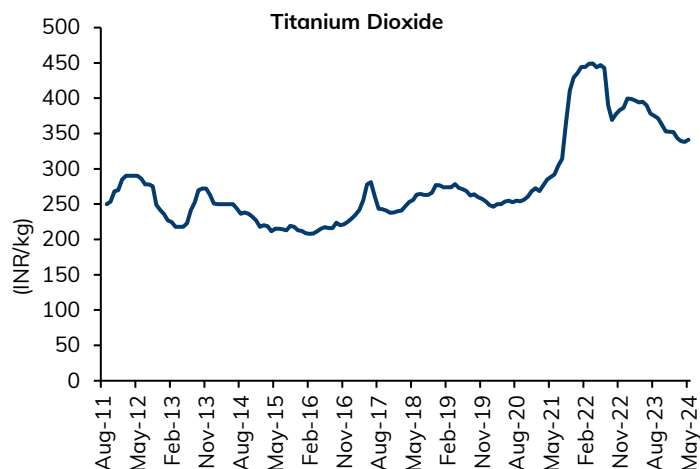
Source: Company data, I-Sec research

Q4FY24 result and conference call takeaways

- Berger had registered standalone revenue/PAT of INR 100bn/10bn in its 100th year of operation in India (FY24).
- The company had registered volume/value growth (standalone) of 13.9%/2.7% YoY in Q4FY24.
- Gross margin trajectory improved to ~40% in recent quarters from earlier 35-36% range. In addition to input price deflation, low value inventory and formulation efficiencies have supported gross margin in Q4FY24.
- Its volume-value gap has broadened due to (1) de-stocking in luxury products (largely in anticipation that the prices might drop on intensified competition), (2) substantial growth in low-value but high-volume products, and (3) price cut (~4%) undertaken in Jan'24.
- The company believes de-stocking in luxury products may not continue in Q1FY25. Impact of price cut taken in Jan'24 is likely to remain until Dec'24 (value growth likely to normalise post Dec'24).
- Berger took ~1% and 4-4.5% price cut in Nov'23 and Jan'24, respectively.
- Sandila plant is operating at 48-50% of its capacity. Higher utilisation in this plant will aid margins.
- The company's foray into new geographies, where it had relatively low/no presence, has partly led to higher-than-market growth and market share gains.
- Berger has maintained its EBITDA margin guidance of 15-17% for FY25. Further, if profitability exceeds its internal estimates, the company aims to increase its spend on advertising and brand building.
- The company aims to maintain its double-digit volume growth and mid-single digit value growth till Dec'24. Its value growth is likely to be at par with volume growth Q4FY25 onwards.
- In decorative business, the company has added 7,300+ retail touchpoints (aims to add ~8,000 machines in FY25) and installed 7,100+ colorbank machines in FY24. In total, Berger has installed ~45,000 colorbank machines at its ~55,000 retail touchpoints.
- Berger had introduced multiple products in FY24, including Roof Kool and Seal, PU Elastoseal in waterproof roof coating business and Easy Clean Silky touch in decorative business. Roof Kool and Seal was introduced in Nov'23 and has received positive response from the market.
- Berger increased its advertising and promotional (on absolute basis) spends by ~40% in FY24 YoY.
- Project business contributed ~8% of standalone revenue in FY24. This segment has reported slightly better value growth vs retail business.
- Economic emulsion had better growth in Q4FY24 vs luxury product segment.
- Berger aims to commission its Khordha (Odisha) plant between Dec'26 and Mar'27.

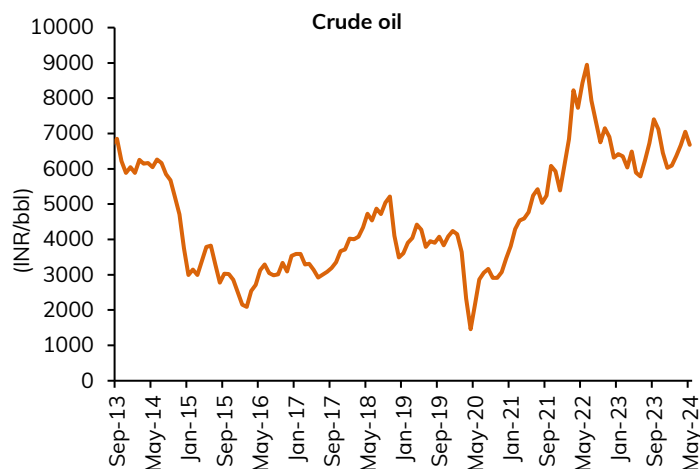
Key raw material prices

Exhibit 15: Titanium dioxide



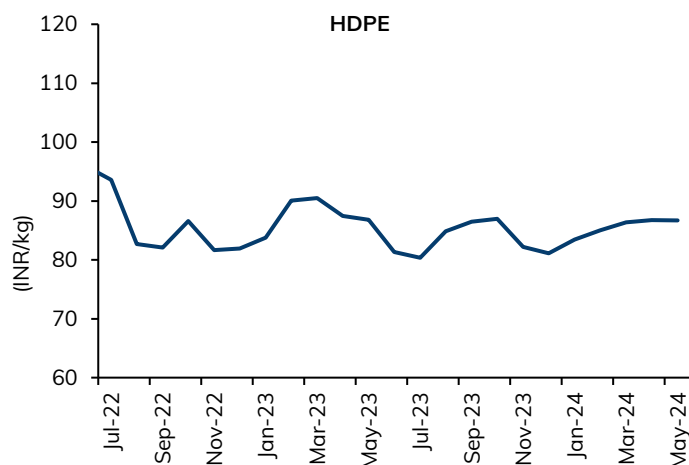
Source: Company data, I-Sec research

Exhibit 16: Crude oil



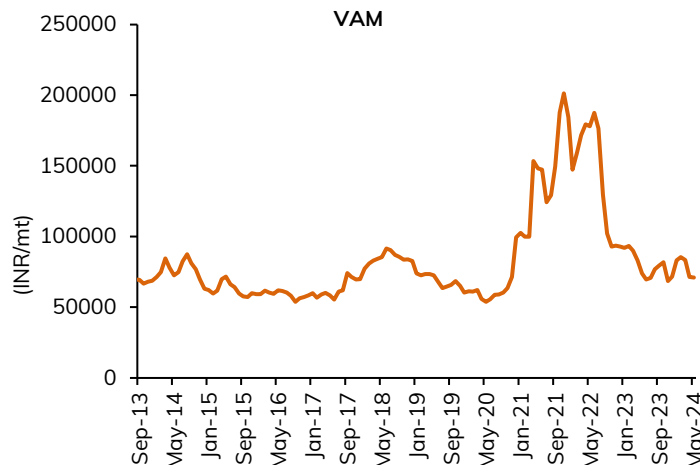
Source: Company data, I-Sec research

Exhibit 17: Packaging material - HDPE



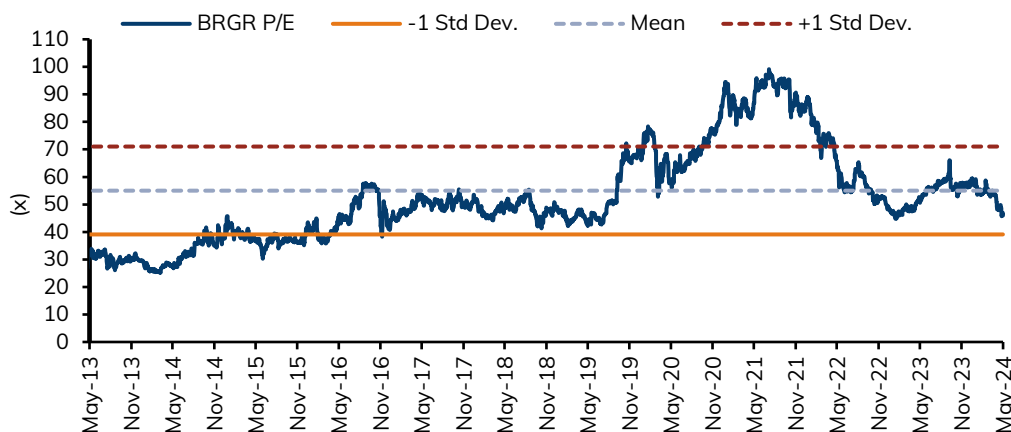
Source: Company data, I-Sec research

Exhibit 18: VAM prices



Source: Company data, I-Sec research

Exhibit 19: Mean PE and standard deviation



Source: Bloomberg, I-Sec research

Exhibit 20: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	75.0	75.0	75.0
Institutional investors	15.0	15.3	15.9
MFs and others	0.9	1.1	0.9
Insurance	2.9	3.4	4.2
FIIIs	11.2	10.8	10.8
Others	10.1	9.7	9.1

Source: Bloomberg

Exhibit 21: Price chart



Source: Bloomberg

Financial Summary

Exhibit 22: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,05,678	1,11,989	1,20,785	1,33,551
Operating Expenses	23,501	26,916	29,091	32,209
EBITDA	14,872	18,613	18,420	19,749
EBITDA Margin (%)	14.1	16.6	15.3	14.8
Depreciation & Amortization	2,640	3,309	3,327	3,544
EBIT	12,232	15,304	15,094	16,205
Interest expenditure	992	783	522	522
Other Non-operating Income	516	637	751	1,229
Recurring PBT	11,755	15,159	15,323	16,912
Profit / (Loss) from Associates	(141)	390	390	390
Less: Taxes	3,019	3,871	3,861	4,262
PAT	8,736	11,288	11,461	12,651
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	44	223	-	-
Net Income (Reported)	8,638	11,901	11,851	13,040
Net Income (Adjusted)	8,594	11,678	11,851	13,040

Source Company data, I-Sec research

Exhibit 23: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	41,115	42,321	48,629	56,778
of which cash & cash eqv.	2,447	4,507	7,844	11,683
Total Current Liabilities & Provisions	22,147	21,631	23,733	26,386
Net Current Assets	18,968	20,690	24,896	30,392
Investments	4,128	4,470	7,970	11,470
Net Fixed Assets	30,499	31,951	31,624	31,080
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,105	1,890	1,890	1,890
Total Intangible Assets	2,817	3,047	3,047	3,047
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	57,517	62,047	69,426	77,878
Liabilities				
Borrowings	11,944	7,456	7,456	7,456
Deferred Tax Liability	551	699	699	699
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	971	1,166	1,166	1,166
Reserves & Surplus	43,970	52,624	60,003	68,455
Total Net Worth	44,941	53,790	61,169	69,621
Minority Interest	81	102	102	102
Total Liabilities	57,517	62,047	69,426	77,878

Source Company data, I-Sec research

Exhibit 24: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	30,295	27,673	28,818	25,203
% growth (YOY)	9.8%	3.6%	7.0%	3.1%
EBITDA	5,568	4,737	4,800	3,509
Margin %	18.4%	17.1%	16.7%	13.9%
Other Income	136	153	189	159
Extraordinaries	(43)	145	133	(11)
Adjusted Net Profit	3,544	2,916	2,997	2,221

Source Company data, I-Sec research

Exhibit 25: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	9,525	15,083	13,919	14,537
Working Capital Changes	(1,886)	338	(868)	(1,657)
Capital Commitments	(9,077)	(5,545)	(3,000)	(3,000)
Free Cashflow	448	9,538	10,919	11,537
Other investing cashflow	301	(572)	(3,500)	(3,500)
Cashflow from Investing Activities	(8,776)	(6,117)	(6,500)	(6,500)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,624	(4,488)	-	-
Dividend paid	(3,107)	(4,078)	(4,194)	(4,311)
Others	52	1,659	112	112
Cash flow from Financing Activities	(1,431)	(6,907)	(4,082)	(4,199)
Chg. in Cash & Bank balance	(683)	2,060	3,337	3,839
Closing cash & balance	2,447	4,507	7,844	11,683

Source Company data, I-Sec research

Exhibit 26: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.4	10.0	10.2	11.2
Adjusted EPS (Diluted)	7.4	10.0	10.2	11.2
Cash EPS	9.6	12.9	13.0	14.2
Dividend per share (DPS)	2.7	3.5	3.6	3.7
Book Value per share (BV)	38.6	46.2	52.5	59.8
Dividend Payout (%)	36.2	34.9	35.4	33.1
Growth (%)				
Net Sales	20.6	6.0	7.9	10.6
EBITDA	11.7	25.2	(1.0)	7.2
EPS (INR)	3.2	35.9	1.5	10.0
Valuation Ratios (x)				
P/E	65.8	48.4	47.7	43.3
P/CEPS	50.3	37.7	37.2	34.1
P/BV	12.6	10.5	9.2	8.1
EV / EBITDA	38.4	30.3	30.2	27.8
P / Sales	5.3	5.0	4.7	4.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	36.3	40.7	39.3	38.9
EBITDA Margins (%)	14.1	16.6	15.3	14.8
Effective Tax Rate (%)	25.7	25.5	25.2	25.2
Net Profit Margins (%)	8.1	10.4	9.8	9.8
Net Debt / Equity (x)	0.1	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.4	(0.1)	(0.5)	(0.8)
Fixed Asset Turnover (x)	3.5	3.0	2.8	2.8
Working Capital Days	69	58	55	56
Inventory Turnover Days	97	78	76	78
Receivables Days	52	47	45	46
Payables Days	74	60	60	62
Profitability Ratios				
RoCE (%)	18.6	20.4	18.1	17.5
RoE (%)	21.8	25.3	22.2	21.2
RoIC (%)	22.1	23.6	21.8	22.8

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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