

## Strong performance amid challenging scenario...

Berger Paint's Q2FY21 performance was much ahead of our estimates in terms of volume growth and EBITDA margin. The decorative segment volume growth at 15% YoY in Q2FY21 was one of the best in the industry. The strong volume growth was largely led strong decorative paint demand in the semi urban and rural region where company has a stronghold as against industry leader. On the subsidiary front, BBN Nepal was severely impacted by lockdown in the quarter. However, Poland subsidiary Bolix SA exhibited an improved performance. The subsidiary sales growth at 22% YoY was also attributable to acquisition of STP Ltd in November 2019. On the raw material front, gross margin increased 176 bps YoY mainly due to benign raw material price that sufficed to negate the impact of adverse mix and price cuts initiated in September-December 2019. Going forward, the management saw good demand traction in decorative paints supported by intact demand from tier II & III cities along with expansion into water proofing business. We revise our revenue earnings estimates upward for FY21 and introduce FY23 estimates with revenue, earning CAGR of 13%, 20%, respectively. While we stay positive on the stock, we believe at current valuation most of the positives seems to be factored in the price.

### Intact demand from upcountry markets help drive revenue

Q2FY21 consolidated revenues at ~₹ 1742 crore were up 9% YoY. Revenue from standalone business increased ~7% YoY while subsidiaries revenues were higher by ~22% YoY (led by acquisition of STP Ltd). The decorative volume growth at 15% YoY was largely driven by launches of some new product categories, expansion in distribution networks and pent up demand in the upcountry markets. The management expects strong demand revival, going forward, supported by festive demand, easing restriction in urban clusters (drivers of its premium products).

### Benign raw material prices drive EBITDA margins

Gross margin in Q2FY21 increased 176 bps YoY, mainly due to lower input prices, which help offset unfavourable mix, price cut in the decorative paints segment and adverse currency movement. That coupled with various cost optimisation measures help drive EBITDA margin up by 353 bps YoY to 19%. We believe restoration of some operational costs and hardening of input prices would result in a normalised margin, going forward.

### Valuation & Outlook

We introduce FY23 estimates with revenue earning CAGR of 13% and 20%, respectively in FY20-23E. We roll over our valuation on FY23 and maintain our **HOLD** rating with a revised target price ₹ 675/share, considering the current price captures all near term positives.



#### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	63,128.0
Total Debt (FY20) (₹ Crore)	535.9
Cash and Inv (FY20) (₹ Crore)	399.3
EV (₹ Crore)	63,264.6
52 week H/L (₹)	675/390
Equity capital (₹ Crore)	97.1
Face value (₹)	1.0

#### Key Highlights

- Decorative segment volume growth at 15% YoY much ahead of our expectation of 8%
- Various cost optimisation measure likely to drive profitability of the company going forward
- Continuous demand traction from tier II and tier III cities
- Maintain **HOLD** rating with revised target price of ₹ 675

#### Research Analyst

Sanjay Manyal  
sanjay.manyal@icicisecurities.com

Hitesh Taunk  
hitesh.taunk@icicisecurities.com

#### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	6061.9	6365.8	6327.2	7772.8	9088.6	12.6
EBITDA	881.6	1061.0	1208.5	1430.2	1690.5	16.8
EBITDA Margin (%)	14.5	16.7	19.1	18.4	18.6	
Net Profit	497.5	656.1	755.4	937.5	1140.9	20.3
EPS (₹)	5.1	6.8	7.8	9.7	11.7	
P/E (x)	124.8	94.6	82.2	66.2	54.4	
Price/Book (x)	25.1	23.3	19.5	17.0	15.2	
Mcap/Sales (x)	10.2	9.7	9.8	8.0	6.8	
RoE (%)	20.1	24.7	23.8	25.7	27.9	
RoCE (%)	26.2	26.6	26.9	30.3	34.0	

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
<b>Revenue</b>	<b>1,742.6</b>	<b>1,715.5</b>	<b>1,598.6</b>	<b>9.0</b>	<b>930.8</b>	<b>87.2</b>	Strong performance led by decorative paint segment
Other Income	23.2	16.5	15.7	47.4	7.8	196.0	
Raw Material Exp	996.8	995.0	942.6	5.7	549.5	81.4	Gross margin expansion to the tune of 176 bps YoY mainly due to benign raw material prices
Employee Exp	114.1	121.8	112.5	1.4	116.2	-1.8	
Other exp	296.5	308.8	292.4	1.4	172.9	71.4	
Total Exp	1,407.3	1,425.6	1,347.5	4.4	838.7	67.8	
EBITDA	335.2	289.9	251.1	33.5	92.1	264.0	
<b>EBITDA Margin (%)</b>	<b>19.2</b>	<b>16.9</b>	<b>15.7</b>	<b>353 bps</b>	<b>9.9</b>	<b>934 bps</b>	Cost optimisation measures along with benefit of low raw material prices help drive margin, going forward
Depreciation	53.7	61.8	47.2	13.7	50.4	6.7	
Interest	10.9	12.1	10.4	5.1	12.4	-11.9	
Exceptional items							
PBT	293.8	232.5	209.2	40.4	37.2	690.3	
Total Tax	71.6	58.1	12.9	455.3	17.6	306.8	
<b>PAT</b>	<b>221.1</b>	<b>172.7</b>	<b>194.7</b>	<b>13.6</b>	<b>15.1</b>	<b>1,364.9</b>	PAT largely tracking lower sales, operating profit
<b>Key Metrics</b>							
Volume growth (%)	15.0	8.0	11.0		-42.0		Pent up demand along with improved demand from semi urban rural regions help drive volumes, going forward
Realisation growth (%)	-5.2	-1.0	2.0		-6.5		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)	FY21E			FY22E			FY23E	Comment
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	5852.3	6327.2	8.1	7402.2	7772.8	5.0	9,088.6	We factor in current quarter performance on our revenue estimates for FY21E. We introduce FY23E estimates with revenue CAGR of 13% in FY20-23E
EBITDA	994.9	1208.5	21.5	1468.5	1430.2	(2.6)	1,690.5	
EBITDA Margin (%)	17.0	19.1	210bps	20.5	18.4	-210bps	18.6	We believe stabilisation in raw material prices and restoration of some essential operating costs would result in a normalised EBITDA margin, going forward
PAT	595.2	755.4	26.9	972.4	937.5	(3.6)	1,140.9	
EPS (₹)	6.1	7.8	26.9	10.0	9.7	(3.6)	11.7	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				FY23E	Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	Introduced	FY21E	FY22E	
Volume Gr (%)	16.3	5.6	4.6	24.1	13.5	(6.2)	24.4	We model volume CAGR of 14% in FY20-23E 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)	(5.0)	(1.2)	3.0	(2.1)	1.5	

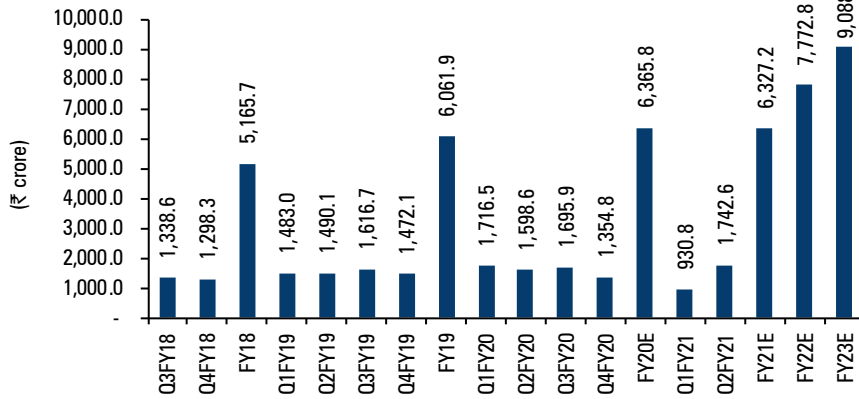
Source: Company, ICICI Direct Research

## Conference call highlights

- The lower raw material prices help in offsetting adverse currency movement and price cuts initiated in September and December 2019 in decorative paints
- The benefit of benign raw material prices is likely to continue in Q3 and Q4FY21. However, some costs are likely to get restored with improved product demand
- The demand growth is likely to sustain in H2FY21 considering intact demand from rural and semi urban regions and opening up of metro and tier 1 cities
- The lower realisation of decorative paint is attributable to price cut in September-December 2019, higher discounts and product mix is skewed towards economy categories
- Change in formulations, rollback of some trade discounts and crude prices likely to remain benign help likely to keep gross margin at elevated level
- Water proofing business (under construction chemicals) would help drive the demand of decorative paint in long term
- Tier II and Tier III cities are key demand drivers for decorative paint categories. The contribution of metro regions was lower than industry average of ~30%
- 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 paint industry as compared to GDP growth in medium to long term
- The company believes decorative paint segment margin to be in line with leader
- The sales through e-com are minimal at current point of time but Berger is formulating strategies to boost sales through e-com route

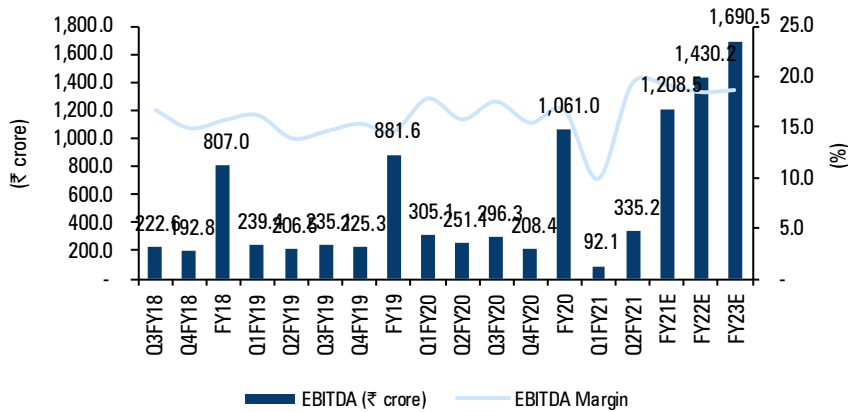
## Financial story in charts

Exhibit 4: Recovery from H2FY21E to help in faster sales recovery



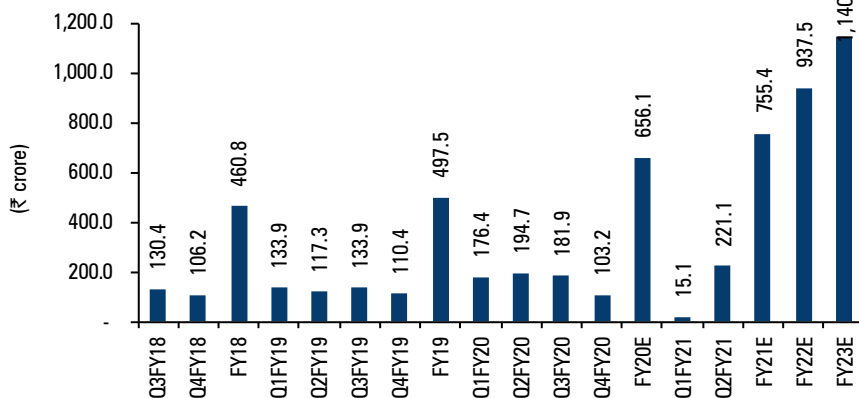
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



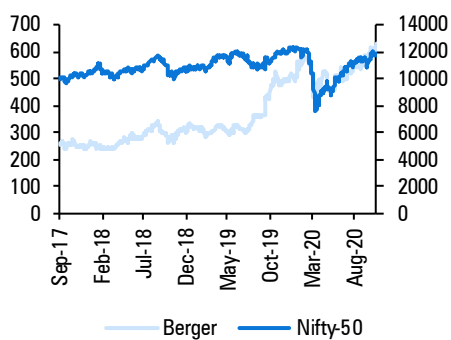
Source: Company, ICICI Direct Research

Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

**Exhibit 7: Historical Price Chart**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	75.0	75.0	75.0	75.0	75.0
FII	6.0	8.0	7.8	11.7	11.4
DII	7.4	6.9	6.9	3.0	3.7
Others	11.6	10.2	10.4	10.3	9.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>6,365.8</b>	<b>6,327.2</b>	<b>7,772.8</b>	<b>9,088.6</b>
Growth (%)	5.0	-0.6	22.8	16.9
Raw material expens	3,209.2	2,815.6	3,614.4	4,135.3
Employee expenses	452.5	499.9	528.6	681.6
Other expenses	1,126.5	1,107.3	1,422.4	1,545.1
Total Operating Exp	5,304.8	5,118.7	6,342.6	7,398.2
<b>EBITDA</b>	<b>1,061.0</b>	<b>1,208.5</b>	<b>1,430.2</b>	<b>1,690.5</b>
Growth (%)	20.4	13.9	18.3	18.2
Depreciation	191.0	208.8	217.6	236.3
Interest	47.0	47.7	37.4	22.7
Other Income	68.5	69.6	85.5	100.0
PBT	891.5	1,021.6	1,260.6	1,531.5
Total Tax	227.1	256.6	317.7	385.9
<b>PAT</b>	<b>656.1</b>	<b>755.4</b>	<b>937.5</b>	<b>1,140.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	656.1	755.4	937.5	1140.9
Add: Depreciation	191.0	208.8	217.6	236.3
(Inc)/dec in Current Assets	-91.8	-324.0	-361.9	-490.0
Inc/(dec) in CL and Provisions	86.9	-97.9	204.9	252.1
Others	47.0	47.7	37.4	22.7
<b>CF from operating activities</b>	<b>889.3</b>	<b>590.1</b>	<b>1035.5</b>	<b>1161.9</b>
(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
<b>CF from investing activities</b>	<b>-428.2</b>	<b>-220.0</b>	<b>-420.0</b>	<b>-420.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	36.0	-65.0	-155.0	-155.0
Dividend paid & dividend tax	-221.4	-209.8	-466.1	-699.2
Others	-294.3	-78.4	-37.4	-22.7
<b>CF from financing activities</b>	<b>-479.7</b>	<b>-353.2</b>	<b>-658.6</b>	<b>-876.9</b>
Net Cash flow	-18.6	16.9	-43.0	-135.0
Opening Cash	238.5	219.9	236.8	193.8
Closing Cash	219.9	236.8	193.8	58.8

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	97.1	97.1	97.1	97.1
Reserve and Surplus	2,563.0	3,077.9	3,549.3	3,990.9
Total Shareholders funds	2,660.1	3,175.1	3,646.4	4,088.0
Total Debt	535.9	470.9	315.9	160.9
Other non current liabilities	327.0	327.0	327.0	327.0
<b>Total Liabilities</b>	<b>3,523.1</b>	<b>3,973.0</b>	<b>4,289.3</b>	<b>4,576.0</b>
<b>Assets</b>				
Gross Block	2,221.0	2,371.0	2,621.0	2,871.0
Less: Acc Depreciation	584.4	793.1	1,010.8	1,247.1
Total Fixed Assets	1,815.1	1,756.3	1,788.7	1,802.4
Investments	135.8	155.8	275.8	395.8
Inventory	1,278.5	1,352.1	1,554.6	1,817.7
Debtors	714.1	866.7	958.3	1,120.5
Loans and Advances	29.0	29.1	31.9	37.3
Other CA	187.1	284.7	349.8	409.0
Cash	219.9	236.8	193.8	58.8
Total Current Assets	2,428.6	2,769.5	3,088.3	3,443.3
Creditors	1,065.8	1,022.8	1,171.2	1,369.5
Provisions	56.2	39.9	45.6	53.4
Other CL	259.9	221.5	272.0	318.1
Total Current Liabilities	1,381.9	1,284.1	1,488.9	1,741.0
Net current assets	1,046.7	1,485.4	1,599.4	1,702.3
Other non current assets	525.4	575.4	625.5	675.5
<b>Total Assets</b>	<b>3,523.1</b>	<b>3,973.0</b>	<b>4,289.3</b>	<b>4,576.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	6.8	7.8	9.7	11.7
Cash EPS	8.7	9.9	11.9	14.2
BV	27.4	32.7	37.5	42.1
DPS	2.3	2.2	4.8	7.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.7	19.1	18.4	18.6
PAT Margin	10.3	11.9	12.1	12.6
Asset Turnover	2.9	2.7	3.0	3.2
Inventory Days	73.3	78.0	73.0	73.0
Debtor Days	40.9	50.0	45.0	45.0
Creditor Days	61.1	59.0	55.0	55.0
<b>Return Ratios (%)</b>				
RoE	24.7	23.8	25.7	27.9
RoCE	26.6	26.9	30.3	34.0
RoIC	30.4	31.2	34.0	36.5
<b>Valuation Ratios (x)</b>				
P/E	96.2	83.6	67.3	55.3
EV / EBITDA	59.6	52.2	44.0	37.2
EV / Net Sales	9.9	10.0	8.1	6.9
Market Cap / Sales	9.9	10.0	8.1	6.9
Price to Book Value	23.7	19.9	17.3	15.4
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	2.0	2.4	2.4	2.4
Quick Ratio	0.8	1.1	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,181	2,440	Buy	2,09,158	29.0	28.9	35.9	75.3	75.6	60.8	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,223	1,260	Hold	18,426	16.6	15.0	23.3	73.8	81.8	52.5	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN)	2,262	2,600	Buy	7,113	52.2	23.7	75.1	43.3	95.3	30.1	22.9	33.2	14.7	14.3	7.2	17.0	14.5	5.3	14.3
Bajaj Electricals (BAJELE)	518	585	Buy	5,889	-0.9	11.8	17.1	NM	43.7	30.3	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	650	675	Hold	63,128	6.8	7.8	9.7	96.2	83.6	67.3	59.6	52.2	44.0	26.6	26.9	30.3	24.7	23.8	25.7
EPL (ESSPRO)	255	270	Buy	8,045	6.7	7.0	9.5	38.0	36.3	26.9	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	815	835	Buy	50,848	11.7	14.1	16.4	69.4	57.8	49.7	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	520	605	Buy	28,024	9.9	10.3	12.0	52.3	50.7	43.2	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,564	1,850	Buy	79,420	22.1	22.7	27.8	70.8	69.0	56.3	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,421	1,695	Buy	18,051	36.8	44.9	47.8	38.6	31.6	29.7	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	824	960	Buy	5,764	26.0	20.5	32.0	31.7	40.1	25.7	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	47	Hold	882	7.5	3.4	9.4	5.2	11.5	4.2	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.4	31.7	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	760	845	Hold	25,136	15.8	12.3	22.6	48.2	61.8	33.6	36.0	53.8	29.0	19.5	12.8	20.1	13.0	9.1	15.3

Source: Company, 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](mailto:pankaj.pandey@icicisecurities.com)

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



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