

Lockdown dents volume growth...

Berger Paints reported strong domestic volume growth in the first two months of Q4FY20. However, domestic revenue (~ 87% of consolidated sales) declined ~13% YoY in Q4FY20 (higher than industry leader) mainly due to ~45% lower volume offtake in March 2020 owing to lockdown. Lower realisation was largely due to a change in product mix. However, the company has not initiated any price cut despite recent decline in raw material prices. However, the management guided that future price cuts on selected product categories cannot be ruled out given the softness in input prices. Unlike industry leader, Berger Paints has low revenue exposure in metros. Hence, it is better positioned to cater to pent up demand in tier II, tier III cities post easing of lockdown. While the product mix is likely to stay skewed towards low end product categories, the revival in maintenance related works would help drive volume growth in the medium term. Gross margin is likely to stay elevated due to a sharp fall in monomers and solvent based product prices. With minute D/E (of 0.2x), strict working capital management led to strong cash flow from operation (up ~60% YoY) in FY20. We maintain our positive stance on the stock given its strong balance sheet position.

Strong show of subsidiaries limits fall in consolidated revenue

Q4FY20 revenue fell ~8% YoY as a fall in domestic revenue was partially arrested by strong revenue growth of subsidiaries (revenue up ~51% YoY) in Poland and Nepal during Q4FY20. Classification of construction works under essential categories helped drive the performance of subsidiaries in the respective regions, along with consolidation of newly acquired business of STP Ltd. We model volume CAGR of ~6% for FY20-22E supported by faster recovery in demand from rural and suburban regions.

Benefit of lower raw material prices to drives profitability

The company reported ~370 bps YoY (280 bps QoQ) increase in gross margins largely supported by benign raw material prices in Q4FY20. Berger has not imitated any price cut on finished goods in Q4FY20 (despite lower raw material prices) and reduction in advertisement expenditure. We believe the sharp fall in raw material prices in Q4FY20 would reflect in better gross margin, going ahead, despite ~6% QoQ depreciation in rupee value. Further, various cost control measures (saving in operating costs like logistics, rents and advertisement spends) along with benign input prices would keep EBITDA margins at elevated levels.

Valuation & Outlook

Berger Paint is likely to report strong earning CAGR of 22% FY20-22E supported by a recovery in demand and elevated margins (backed by benign raw material prices). **While we maintain our positive stance on the stock, we review our rating from BUY to HOLD factoring in Covid-19 uncertainties.**



Particulars

Particular	Amount
Market Capitalization (₹Crore)	49,628.3
Total Debt (FY 20) (₹Crore)	535.9
Cash and Inv (FY 20) (₹Crore)	399.3
EV (₹Crore)	49,765.0
52 week H/L (₹)	597/300
Equity capital (₹Crore)	97.1
Face value (₹)	1.0

Key Highlights

- Volume de-growth of 45% in March on account of lockdown
- Lower end of products grew much faster than premium products
- Continuous demand traction from tier II and tier III cities
- Review our rating from BUY to HOLD with revised target price of ₹ 570

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (20-22E)
Net Sales	5165.7	6061.9	6365.8	5891.9	7163.4	6.1
EBITDA	807.0	881.6	1061.0	972.2	1468.5	17.6
EBITDA Margin (%)	15.6	14.5	16.7	16.5	20.5	
Net Profit	460.8	497.5	656.1	581.9	972.4	21.7
EPS (₹)	4.7	5.1	6.8	6.0	10.0	
P/E (x)	107.7	99.8	75.6	85.3	51.0	
RoE (%)	21.0	20.1	24.7	19.4	27.7	
RoCE (%)	26.9	26.2	26.6	21.5	31.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1,354.8	1,493.5	1,472.1	-8.0	1,695.9	-20.1	Despite strong decorative volume growth in January-February 2020, the domestic business was hit by lower volume offtake in March (volume dipped ~45%) due to lockdown. However, strong performance of subsidiaries was led by Bolix Poland
Other Income	16.7	13.2	16.5	1.1	14.3	16.8	
Raw Material Exp	763.9	891.6	883.8	-13.6	1,003.9	-23.9	Increase in gross margin (up 370 bps YoY, 280 bps QoQ) supported by benign raw material prices
Employee Exp	123.7	107.5	105.3	17.5	104.7	18.2	
Other exp	258.9	261.4	257.8	0.4	291.0	-11.1	
Total Exp	1,146.4	1,260.5	1,246.8	-8.1	1,399.6	-18.1	
EBITDA	208.4	233.0	225.3	-7.5	296.3	-29.7	
EBITDA Margin (%)	15.4	15.6	15.3	8 bps	17.5	-209 bps	Saving in raw material cost offset by higher other expenses and employee cost
Depreciation	49.3	48.3	46.1	7.0	48.3	2.2	
Interest	14.1	12.4	13.7	2.7	12.7	11.2	
Exceptional items							
PBT	161.7	186.8	181.9	-11.1	249.6	-35.2	
Total Tax	56.0	48.5	71.6	-21.7	63.7	-12.1	
PAT	103.2	134.3	110.4	-6.5	181.9	-43.3	Lower tax provisioning restricts fall in PAT
Key Metrics							
Volume growth (%)	-7.0	3.0	15.0		8.0		While industrial paints demand was marred by slowdown in the domestic automotive industry, the decorative segment performance was hit by lockdown in March. However, strong performance of overseas subsidiaries helped partially offset the fall in volume
Realisation growth (%)	-1.0	-1.5	-2.0		-3.0		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			Comment
	Old	New	% Chg	Old	New	% Chg	
Revenue	6753.9	5891.9	(12.8)	8314.5	7163.4	(13.8)	We factor in lockdown impact on our revenue estimates for FY21E. We expect a gradual recovery in paint demand from H2FY21E onwards
EBITDA	1276.5	972.2	(23.8)	1721.1	1468.5	(14.7)	
EBITDA Margin (%)	18.9	16.5	-240bps	20.7	20.5	-20bps	We believe a saving in raw material prices is likely to be offset by low operating leverage in FY21E. However, we believe raw material prices will remain benign in the medium term. Hence, a revival in demand post H2FY21 would lead to a faster recovery in EBITDA margin
PAT	814.2	581.9	(28.5)	1148.4	972.4	(15.3)	
EPS (₹)	8.4	6.0	(28.5)	11.8	10.0	(15.3)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Volume Gr (%)	9.3	16.3	5.6	(6.4)	20.0	4.8	17.1	We model volume CAGR of 8% in FY20-22E led by continued demand from tier II and tier III cities
Realisation Gr (%)	3.7	0.9	(1.1)	(1.1)	1.1	(1.0)	4.9	

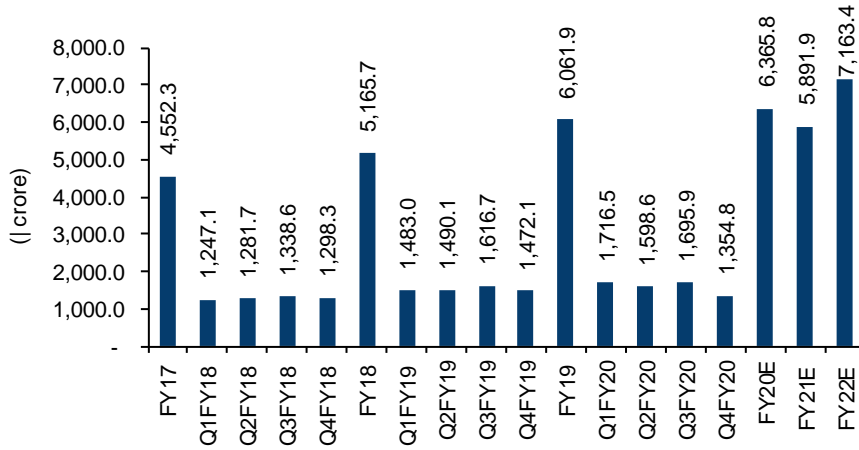
Source: Company, ICICI Direct Research

Conference call highlights

- Double digit decorative volume growth expected in January-February 2020 with recovery in demand. However, ~45% volume de-growth is expected in March 2020 due to the lockdown in India that dragged overall sales in Q4FY20 and FY20
- Region wise, revenue contribution from Tier II and Tier III cities is relatively higher than tier I cities, which are largely in the grip of the Covid-19 related lockdown
- Overseas subsidiaries such as Bolix SA (Poland) Berger Jenson and Nicholson Nepal (BJ&N) recorded a strong performance during Q4FY20 and FY20. The construction works were classified as 'essential' in these regions
- The company witnessed a recovery in demand in June led by start of maintenance related works. Normalcy has started across 90-95% region across India post ease in lockdown. A faster recovery in demand is expected, going ahead, with an easing in lockdown
- The economic range of products (distemper, putty and economic enamels) are likely to grow faster compared to the premium category in the medium term
- There was a sharp decline in prices of raw materials followed by crude price corrections. However, the company has not initiated any price cut during the quarter. Berger has also not cut advertisement expenditure during Q4FY20
- Various cost control measures (on advertisement, logistics, rents, etc) along with lower raw material prices would ensure better profitability in the near future
- A ~10% increase in dealer base is expected over the last years
- The company will continue with its capex plan with an outlay of ~₹ 200-250 crore initially. However, the same would get rationalised in case of a delay in demand recovery. The brownfield expansion works of Pune plant (for industrials paints) is complete and expansion in Lucknow will start from November 2020
- STP Ltd, a newly acquired company, will significantly support Berger's existing construction chemicals, waterproofing and protective coatings vertical. STP has clocked revenue of ₹ 174 crore in FY19 and is expected to grow gradually with a recovery in demand
- The industrial business was impacted by the slowdown in the automotive industry. Autos and industrials account for ~8% of revenue currently
- Also, ~10% of overall raw material is imported from China. However, the company has also ensured alternate sourcing in case any supply related issues increase from a particular region

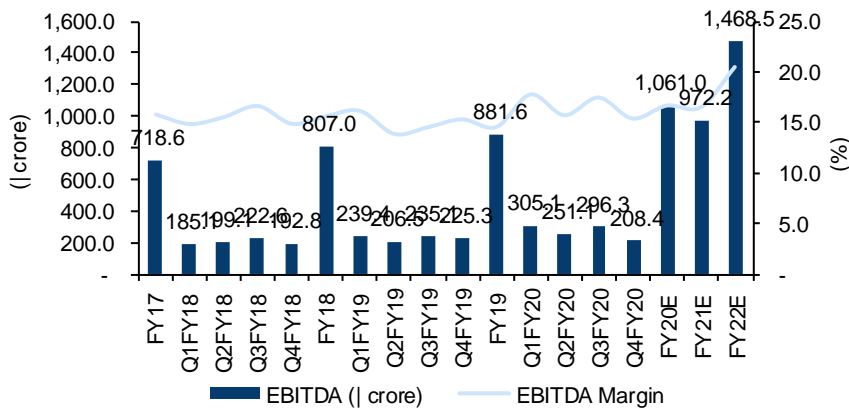
Financial story in charts

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



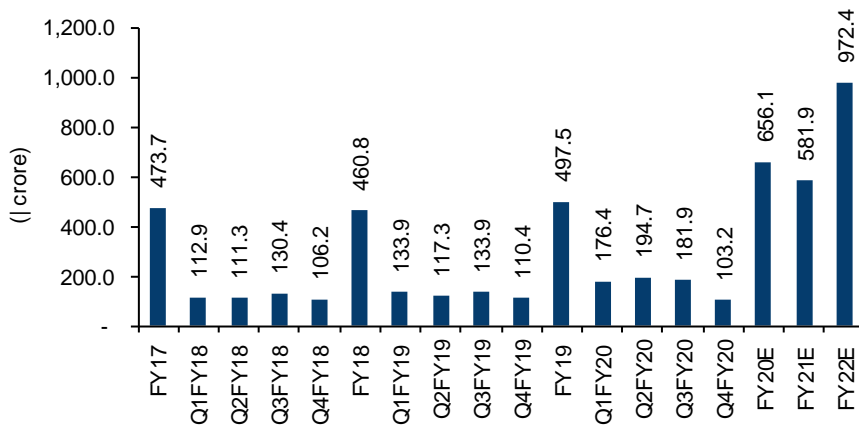
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



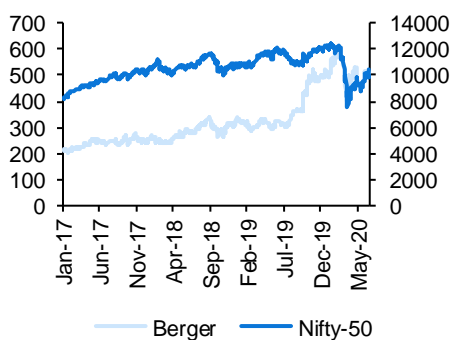
Source: Company, ICICI Direct Research

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 %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	75.0	75.0	75.0	75.0	75.0
FII	5.4	5.4	6.0	8.0	7.8
DII	8.4	8.2	7.4	6.8	6.9
Others	11.2	11.4	11.6	10.3	10.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	6,061.9	6,365.8	5,891.9	7,163.4
Growth (%)	17.3	5.0	-7.4	21.6
Raw material expense	3,242.6	3,209.2	2,769.2	3,331.0
Employee expense	408.5	452.5	530.3	573.1
Other expenses	1,072.2	1,126.5	1,148.9	1,289.4
Total Operating Ex	5,180.3	5,304.8	4,919.7	5,694.9
EBITDA	881.6	1,061.0	972.2	1,468.5
Growth (%)	9.2	20.4	-8.4	51.1
Depreciation	137.8	191.0	212.1	222.1
Interest	32.3	47.0	30.2	23.6
Other Income	60.0	68.5	56.0	78.8
PBT	771.5	891.5	785.8	1,301.6
Total Tax	273.2	227.1	198.0	328.0
PAT	497.5	656.1	581.9	972.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	497.9	656.1	581.9	972.4
Add: Depreciation	137.8	191.0	212.1	222.1
(Inc)/dec in Current Assets	-167.2	-91.8	-149.7	-505.4
Inc/(dec) in CL and Provisions	60.5	86.9	-186.2	176.5
Others	32.3	47.0	30.2	23.6
CF from operating activities	561.2	889.3	488.3	889.2
(Inc)/dec in Investments	-38.6	8.3	-20.0	-20.0
(Inc)/dec in Fixed Assets	-310.8	-733.3	-150.0	-150.0
Others	3.2	296.9	-50.0	-50.0
CF from investing activities	-346.1	-428.2	-220.0	-220.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	70.4	36.0	-65.0	-155.0
Dividend paid & dividend tax	-210.7	-221.4	-209.8	-466.1
Others	-41.3	-294.3	-60.9	-23.6
CF from financing activities	-181.5	-479.7	-335.7	-644.8
Net Cash flow	33.5	-18.6	-67.4	24.4
Opening Cash	204.9	238.5	219.9	152.5
Closing Cash	238.5	219.9	152.5	176.9

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	97.1	97.1	97.1	97.1
Reserve and Surplus	2,375.6	2,563.0	2,904.4	3,410.7
Total Shareholders func	2,472.7	2,660.1	3,001.5	3,507.8
Total Debt	499.9	535.9	470.9	315.9
Other non current liabilit	95.1	327.0	327.0	327.0
Total Liabilities	3,067.7	3,523.1	3,799.4	4,150.7
Assets				
Gross Block	1,496.2	2,221.0	2,371.0	2,521.0
Less: Acc Depreciation	393.3	584.4	796.5	1,018.5
Total Fixed Assets	1,272.8	1,815.1	1,753.0	1,680.9
Investments	144.1	135.8	155.8	175.8
Inventory	1,233.5	1,278.5	1,259.1	1,530.8
Debtors	671.5	714.1	807.1	981.3
Loans and Advances	24.9	29.0	27.1	29.4
Other CA	187.0	187.1	265.1	322.4
Cash	238.5	219.9	152.5	176.9
Total Current Assets	2,355.4	2,428.6	2,510.9	3,040.7
Creditors	999.0	1,065.8	952.4	1,079.4
Provisions	38.9	56.2	37.1	42.1
Other CL	257.1	259.9	206.2	250.7
Total Current Liabilities	1,295.0	1,381.9	1,195.7	1,372.2
Net current assets	1,060.4	1,046.7	1,315.2	1,668.5
Other non current asse	590.4	525.4	575.4	625.5
Total Assets	3,067.7	3,523.1	3,799.4	4,150.7

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	5.1	6.8	6.0	10.0
Cash EPS	6.5	8.7	8.2	12.3
BV	25.5	27.4	30.9	36.1
DPS	2.2	2.3	2.2	4.8
Operating Ratios (%)				
EBITDA Margin	14.5	16.7	16.5	20.5
PAT Margin	8.2	10.3	9.9	13.6
Asset Turnover	4.1	2.9	2.5	2.8
Inventory Days	74.3	73.3	78.0	78.0
Debtor Days	40.4	40.9	50.0	50.0
Creditor Days	60.2	61.1	59.0	55.0
Return Ratios (%)				
RoE	20.1	24.7	19.4	27.7
RoCE	26.2	26.6	21.5	31.9
RoIC	32.0	30.4	24.5	36.4
Valuation Ratios (x)				
P/E	99.8	75.6	85.3	51.0
EV / EBITDA	56.3	46.9	51.1	33.7
EV / Net Sales	8.2	7.8	8.4	6.9
Market Cap / Sales	8.2	7.8	8.4	6.9
Price to Book Value	20.1	18.7	16.5	14.1
Solvency Ratios				
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	2.0	2.0	2.4	2.6
Quick Ratio	0.9	0.8	1.1	1.2

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	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
Asian Paints (ASIPA)	1,687	1,900	Hold	1,61,783	29.0	20.4	32.5	58.2	82.9	51.9	39.9	50.6	34.0	27.4	18.4	27.2	30.5	21.2	31.2
Astral Polytechnik (ASTP)	963	900	Hold	14,509	16.6	14.2	20.0	58.1	67.6	48.1	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM)	1,548	1,565	Hold	4,868	52.2	15.1	54.9	29.7	102.4	28.2	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Bajaj Electricals (BAJEL)	403	495	Buy	4,582	0.0	4.1	14.8	NM	98.4	27.3	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPA)	511	570	Hold	49,628	6.8	6.0	10.0	75.6	85.3	51.0	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRC)	185	190	Hold	5,518	6.7	6.0	7.9	27.6	30.8	23.4	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2
Havells India (HAVIND)	586	575	Buy	36,561	11.7	7.8	13.2	49.9	74.8	44.3	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	460	415	Buy	24,790	9.9	7.8	10.4	46.3	58.9	44.2	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,388	1,485	Hold	71,160	21.9	18.3	26.2	63.4	75.7	53.0	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6
Polycab India (POLI)	782	855	Buy	11,642	51.4	36.2	53.2	15.2	21.6	14.7	9.6	12.4	9.1	26.5	16.9	20.3	20.0	12.3	15.6
Supreme Indus (SUPINC)	1,127	1,040	Hold	14,316	38.5	36.8	27.6	39.7	30.6	40.8	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	904	1,055	Buy	6,324	26.0	23.7	35.1	34.7	38.2	25.7	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
V-Guard Ind (VGUARD)	175	210	Buy	7,449	4.4	3.5	5.1	40.2	49.5	34.4	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Voltas Ltd (VOLTAS)	545	635	Buy	18,025	15.8	9.5	21.4	34.6	57.4	25.4	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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