

Marred by lower volume, high RM cost...

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. The company has ~13 manufacturing units in India with ~30,000 dealer network across India
- Strong b/s with RoCE, RoE of 26%, 22% respectively (five-year average)

Q4FY22 Results: Revenue growth was largely driven by price hike, higher raw material cost weighed on margins.

- Revenue increased 8% YoY to ~₹ 2188 crore in Q4FY22 even on a higher base of 50% growth in Q4FY21. Revenue growth was largely driven by higher realisations (up ~14% YoY)
- High raw material cost dragged gross margin down 478 bps YoY. However, saving in other costs arrested EBITDA margin fall at 73 bps YoY to 15.8%
- PAT increased ~6% YoY to ₹ 220 crore, tracking sales growth and higher other income in Q4

What should investors do? Berger's share price has given ~140% return over the past five years (from ~₹ 254 in May 2017 to ~₹ 605 levels in May 2022).

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

Target Price and Valuation: We value Berger at ₹ 650 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 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 like Supreme Industries in our coverage universe.

- Supreme is market leader in plastic piping segment with ~14% market share. Robust b/s with average RoE, RoCE of 24%, 27%, respectively
- BUY with a target price of ₹ 2320

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	5 Year CAGR (17-22E)	FY23E	FY24E	2 Year CAGR (22-24E)
Net Sales	6061.9	6365.8	6817.6	8761.8	14%	9869.8	11202.9	13%
EBITDA	881.6	1061.0	1188.0	1331.1	13%	1510.1	1781.3	16%
EBITDA Margin (%)	14.5	16.7	17.4	15.2		15.3	15.9	
Net Profit	497.5	656.1	719.7	833.0	12%	960.3	1151.4	18%
EPS (₹)	5.1	6.8	7.4	8.6		9.9	11.9	
P/E (x)	118.1	89.6	81.6	70.5		61.2	51.0	
Price/Book (x)	23.8	22.1	17.4	15.0		15.4	13.8	
Mcap/Sales (x)	9.7	9.2	8.6	6.7		6.0	5.2	
RoE (%)	20.1	24.7	21.3	21.2		25.2	27.0	
RoCE (%)	26.2	26.6	24.9	23.3		27.9	30.4	

Source: Company, ICICI Direct Research



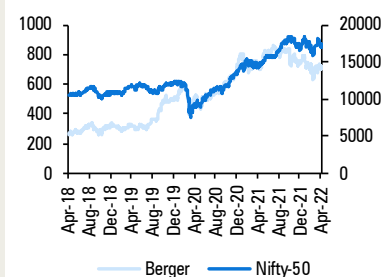
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	58,757.6
Total Debt (FY22) (₹ Crore)	667.9
Cash and Inv (FY22) (₹ Crore)	400.2
EV (₹ Crore)	59,025.3
52 week H/L (₹)	872/544
Equity capital (₹ Crore)	97.1
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	75.0	75.0	75.0	75.0	75.0
FII	11.2	11.3	11.2	11.3	11.3
DII	4.1	4.0	3.9	3.6	3.4
Others	9.7	9.7	9.9	10.1	10.3

Price Chart



Recent event & key risks

- Key Risk:** (i) Lower than expected growth in decorative paints (ii) Strong recovery in EBITDA margins

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Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- The company reported price led revenue growth of 8% YoY to ~₹ 2188 crore. We believe Berger reported decorative paint volume de-growth of ~5% in Q4FY22 mainly due to higher base of last year (volume were up ~60% YoY). Higher realisation (up ~14% YoY) driven by price hikes (~22% in FY22)
- On the margin front, gross margin declined 478 bps YoY dragged by higher raw material costs and delay in taking prices hikes. The EBITDA margin declined 73 bps YoY to 15.8% as a sharp fall in gross margins was arrested by savings in other expenses
- PAT during the period increased ~6% YoY to ₹ 220 crore, tracking higher sales and other income (up by ~28% YoY)

Q4FY22 Earnings Conference Call highlights

- Lower growth in the decorative business is on account of significant higher base (as the company has executed one of the large projects in Q4FY21). Adjusted volume growth would have been 6-7% in Q4FY22
- Demand for industrial paints (15-20% of revenues) was largely driven by protective and infrastructure business. The company has been witnessing a revival in the demand automotive business
- The company has already taken price hike of ~2.2% in Q1FY23. Berger sees strong demand traction despite aggressive price hike. The company plans further price hikes in the coming quarters if raw material prices remains at elevated levels
- Berger is focused on maintaining its market share in the decorative paint segment by increasing rural penetration and launching new product categories

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints	2,72,740	21713	29101	33133	37848	22	17	18	19	3207	3085	4129	5013	30	27	33	37	25	23	28	31	85	88	66	54
Berger Paints	58,764	6818	8762	9870	11203	17	15	15	16	720	833	960	1151	25	23	28	30	21	21	25	27	82	71	61	51
Kansai Nero	21,772	4771	5949	6684	7550	18	11	13	13	531	374	524	651	17	12	17	20	13	9	13	15	41	58	42	33
Pidilite Ind	1,12,935	7293	9921	10874	12126	23	19	18	20	1126	1207	1319	1634	24	22	23	26	20	19	19	21	100	94	86	69

Source: Bloomberg, ICICI Direct Research

We believe Berger Paints' decorative segment volume has declined ~5% in Q4FY22 against 8% volume growth of Industry leader (both the players had higher base in Q4FY21). Similarly, in FY22 market leader's volume growth of 36% was much ahead of Berger's volume growth of 20%. We believe Berger Paints had focused more on maintaining EBITDA margin over market share. Berger's EBITDA margin fell 150 bps in FY22 vs. ~410 bps fall of the market leader. However, 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. We thereby build in limited margin expansion for Berger Paints, going forward. We cut our EBITDA margin estimate by 80 bps to ~16% for FY24 (building in average pre-Covid level EBITDA margin). On the topline front, we build in revenue CAGR of 13% in FY22-24E vs. 14% CAGR of Asian Paints (considering market share gains by Asian Paints in F22). We value Berger Paint at 55x FY24E earnings (~15% discount to Asian Paints) with a revised target price of ₹ 650/share and maintain our **HOLD** rating on the stock. We turned cautious on the paint sector for the medium term post capex announcement of leading building material brands. We believe established paint players will have to sacrifice profitability in order to maintain market share, which will limit their bottomline growth.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	2,187.5	2,187.0	2,026.1	8.0	2,550.8	-14.2	Revenue growth was largely driven by price hike
Other Income	19.1	15.0	15.0	27.5	15.5	23.8	
Raw Material Exp	1,336.4	1,295.5	1,141.0	17.1	1,615.3	-17.3	Higher raw material prices resulted in decline in gross margin by 478 bps YoY but price hike helped gross margin recovery on a QoQ basis
Employee Exp	134.1	134.2	126.8	5.8	136.0	-1.4	
Other exp	370.5	410.2	422.7	-12.3	407.4	-9.0	
Total Exp	1,841.1	1,839.9	1,690.5	8.9	2,158.7	-14.7	
EBITDA	346.4	347.1	335.6	3.2	392.1	-11.6	
EBITDA Margin (%)	15.8	15.9	16.6	-73 bps	15.4	46 bps	Saving in other costs help partially negate the adverse impact of higher raw material costs
Depreciation	59.8	55.8	54.2	10.3	56.1	6.6	
Interest	14.6	10.3	11.9	22.5	13.9	5.5	
Exceptional items							
PBT	291.2	296.0	284.5	2.4	337.7	-13.8	
Total Tax	76.2	72.1	74.8	1.8	84.2	-9.5	
PAT	220.3	223.7	208.6	5.6	253.0	-12.9	PAT growth is attributable to revenue growth and higher other income in Q4
Key Metrics							
Volume growth (%)	-5.0	-13.0	53.0		12.0		Lower volume growth is attributable to the high base and pandemic led disruption in the month of Jan-Feb'22
Realisation growth (%)	13.6	24.1	-5.4		7.5		Price hikes during FY22 drives realisation growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	9980.3	9869.8	(1.1)	11349.3	11202.9	(1.3)	We have slightly tweaked our revenue estimates for FY23E-24E. We build in revenue volume, value CAGR of 10%, 13% respectively for FY22-24E
EBITDA	1497.0	1510.1	0.9	1906.7	1781.3	(6.6)	
EBITDA Margin (%)	15.0	15.3	30bps	16.8	15.9	-90bps	We have cut our margin estimate for FY24 factoring in increased competition and higher advertisement expenditure
PAT	951.2	960.3	1.0	1243.6	1151.4	(7.4)	
EPS (₹)	9.8	9.9	1.0	12.8	11.9	(7.4)	

Source: ICICI Direct Research

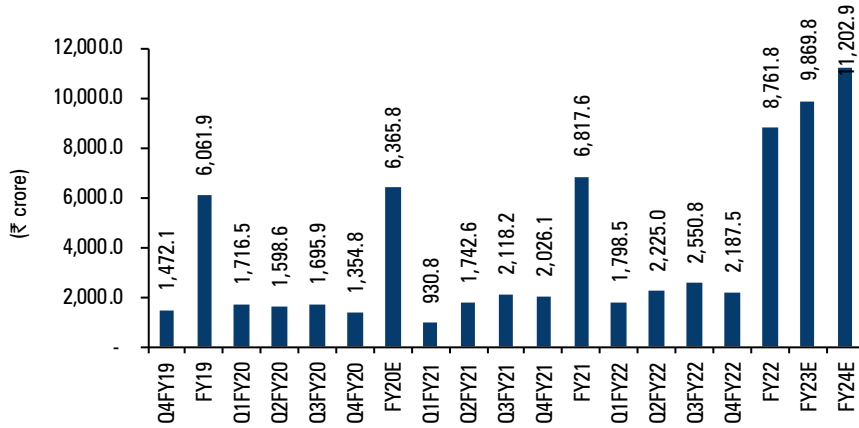
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Volume Gr (%)	16.3	5.6	15.3	19.7	8.3	12.2	3.2	12.0	We model volume CAGR of 10% in FY22-24E supported by capacity addition, 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	3.7	1.2	10.1	1.5	

Source: ICICI Direct Research

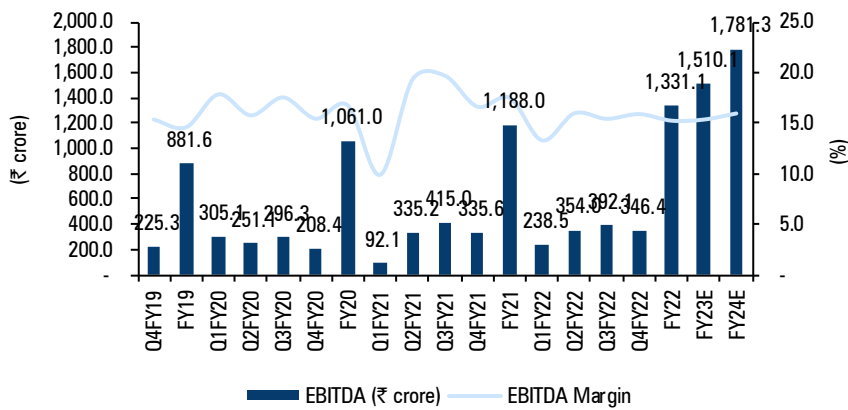
Financial story in charts

Exhibit 5: Revenue trend



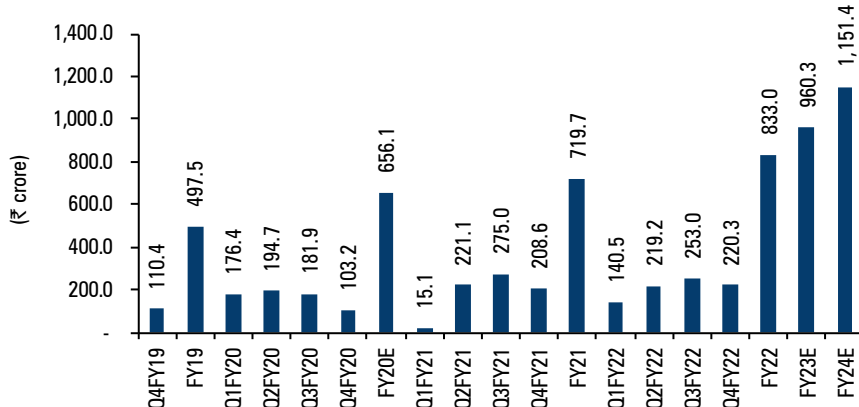
Source: Company, ICICI Direct Research

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	9,869.8	11,202.9
Growth (%)	7.1	28.5	12.6	13.5
Raw material expens	3,250.9	4,665.3	5,231.0	5,971.2
Cost of traded goods	617.6	763.8	838.9	829.0
Employee expenses	485.1	543.1	611.9	672.2
Other expenses	1,275.9	1,458.5	1,677.9	1,949.3
Total Operating Exp	5,629.6	7,430.7	8,359.7	9,421.7
EBITDA	1,188.0	1,331.1	1,510.1	1,781.3
Growth (%)	12.0	12.0	13.4	18.0
Depreciation	211.1	226.5	244.8	268.9
Interest	44.1	50.7	55.8	49.9
Other Income	51.5	64.6	69.1	71.7
PBT	984.2	1,118.4	1,278.6	1,534.2
Total Tax	258.9	289.3	322.2	386.6
PAT	719.7	833.0	960.3	1,151.4
Growth (%)	9.7	15.7	15.3	19.9
EPS (₹)	7.4	8.6	9.9	11.9

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	960.3	1151.4
Add: Depreciation	211.1	226.5	244.8	268.9
(Inc)/dec in Current Assets	-704.1	-744.4	204.0	-497.1
Inc/(dec) in CL and Provisions	404.8	418.5	96.5	310.9
Others	44.1	50.7	55.8	49.9
CF from operating activities	675.6	784.3	1561.3	1284.0
(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	-433.9	-49.9
CF from financing activities	-199.2	-49.4	-1,233.2	-779.2
Net Cash flow	219.7	-126.7	58.1	34.8
Opening Cash	219.9	439.6	313.0	371.1
Closing Cash	439.6	313.0	371.1	405.9

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	3,712.7	4,164.9
Total Shareholders funds	3,376.9	3,927.0	3,809.9	4,262.0
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	4,790.4	5,212.5
Assets				
Gross Block	2,552.0	2,933.3	3,183.3	3,533.3
Less: Acc Depreciation	795.5	1,022.0	1,266.8	1,535.6
Total Fixed Assets	1,863.3	2,516.8	2,522.0	2,603.1
Investments	145.9	147.1	147.1	147.1
Inventory	1,616.1	2,315.8	1,974.0	2,240.6
Debtors	1,019.7	1,053.7	1,135.7	1,319.8
Loans and Advances	39.7	0.0	0.0	0.0
Other CA	237.3	287.7	343.5	389.9
Cash	439.6	313.0	371.1	405.9
Total Current Assets	3,352.5	3,970.2	3,824.3	4,356.2
Creditors	1,497.4	1,802.9	1,892.8	2,148.5
Provisions	54.2	51.6	68.5	77.8
Other CL	235.1	350.6	340.3	386.2
Total Current Liabilities	1,786.7	2,205.1	2,301.6	2,612.5
Net current assets	1,565.8	1,765.0	1,522.7	1,743.7
Other non current assets	559.4	578.7	598.7	718.7
Total Assets	4,134.4	5,007.5	4,790.4	5,212.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	7.4	8.6	9.9	11.9
Cash EPS	9.6	10.9	12.4	14.6
BV	34.8	40.4	39.2	43.9
DPS	2.8	3.7	7.2	7.2
Operating Ratios (%)				
EBITDA Margin	17.4	15.2	15.3	15.9
PAT Margin	10.6	9.5	9.7	10.3
Asset Turnover	2.7	3.0	3.1	3.2
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	25.2	27.0
RoCE	24.9	23.3	27.9	30.4
RoIC	29.9	28.6	35.6	39.1
Valuation Ratios (x)				
P/E	81.6	70.5	61.2	51.0
EV / EBITDA	49.2	44.3	39.0	32.9
EV / Net Sales	8.6	6.7	6.0	5.2
Market Cap / Sales	8.6	6.7	6.0	5.2
Price to Book Value	17.4	15.0	15.4	13.8
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	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	Hold	2,72,740	33.4	32.2	43.1	52.3	85.1	88.4	66.1	54.4	55.2	56.2	44.1	36.7	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9
Berger Paints (BERPAI)	Hold	58,764	7.4	8.6	9.9	11.9	81.6	70.5	61.2	51.0	49.2	44.3	39.0	32.9	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0
Kansai Nerolac (KANNER)	Reduce	21,772	9.8	6.9	9.7	12.1	41.0	58.2	41.5	33.4	25.8	33.5	25.9	21.3	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	Hold	1,12,935	22.2	23.8	26.0	32.2	100.3	93.6	85.7	69.1	67.0	61.0	57.0	46.2	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	Hold	11,313	16.5	10.8	22.0	29.5	59.7	90.9	44.8	33.4	38.1	44.8	33.5	25.4	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	Hold	22,001	9.8	8.7	8.6	10.6	35.7	40.2	40.6	33.0	29.0	28.7	27.2	22.6	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	Hold	75,991	16.7	17.8	19.3	26.7	73.1	68.5	63.2	45.6	47.8	45.3	42.2	31.1	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
Polycab India (POLI)	Buy	36,374	59.3	61.4	62.9	80.8	41.1	39.7	38.7	30.1	31.9	27.9	24.9	19.4	20.6	20.2	20.7	23.0	17.9	15.6	15.7	17.5
Symphony (SYMLIM)	Hold	6,996	15.3	17.3	26.1	34.8	65.4	57.8	38.3	28.7	49.0	42.3	29.5	22.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	10,098	4.7	5.3	5.4	6.6	49.6	43.9	43.0	35.3	31.5	29.7	27.9	22.7	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0
Voltas Ltd (VOLTAS)	Hold	34,363	16.0	15.3	21.0	28.9	65.0	67.9	49.5	35.9	52.9	49.4	41.0	29.2	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBE)	Hold	8,885	24.7	33.0	60.4	86.2	106.7	79.8	43.7	30.6	40.1	33.5	24.2	18.1	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTE)	Buy	22,577	27.3	35.9	78.5	110.9	139.5	105.9	48.4	34.3	78.8	54.9	30.2	22.3	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	Buy	22,865	77.0	76.2	78.8	92.7	23.4	23.6	22.9	19.4	17.2	18.0	17.2	14.1	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	Hold	34,110	20.3	24.9	27.5	33.9	83.6	68.2	61.7	50.0	52.3	44.0	40.7	33.5	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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