Narnolia™

Berger Paints (I) Limited

Industry	Consumers
Bloomberg	BRGR IN
BSE CODE	509480

Lower gross margin dents EBITDAM and PAT

RATING	BUY
CMP	308
Price Target	367
Potential Upside	19%

Rating Change	⟷
Estimate Change	↓
Target Change	⟷

Stock Info

52wk Range H/L	350/232
Mkt Capital (Rs Cr)	29888
Free float (%)	25%
Avg. Vol 1M (,000)	1247
No. of Shares (Cr)	97
Promoters Pledged %	0%

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3QFY19 Results Update

- BERGEPAINT reported consolidated sales growth of 20.8% YoY to Rs 1617 crores with standalone revenue growing by 21% YoY and robust growth in subsidiary businesses
- The decorative business reported a stellar volume growth of 19% YoY in a delayed Diwali quarter. The realisations grew lower than ~7% cumulative price hike taken in the current financial year over lower product mix and higher promotional activites.
- Q3FY19 gross margin was further lower from Q2FY19 to 37.8% with the continued costs pressure faced on account of higher raw materials prices and adverse forex movement.
- However, EBITDA margin improved sequentially to 14.6% on the back of operational efficiency witnessed with higher volumes achieved.
- PAT for the quarter stood at Rs 134 crores indicating a PAT margin of 8.3%.
- The management continues to maintain its capex guidance of Rs 200 crores on the standalone books.

View and Valuation

BERGEPAINT reported 20.8% YoY growth in its consolidated topline on the back of strong decorative volume growth of 19% YoY (in-line with market leader ASIANPAINT) and subsidiaries revenue growing by 18% YoY. The management guided that it expects the decorative segment to show improvement going forward and the industrial segment to sustain its growth performance. With the tailwinds faced by the industry in recent past, upcoming central election in India and volatility globally, we expect the revenue to grow at a CAGR of 14.7% over FY18-20. The gross margins in the current quarter can be seen as an anomaly with the inventory affecting the costs even after the dramatic fall witnessed in crude prices. As stated by the management that inventory effect will fade off by January and the costs will be better then, given the crude continues to trade around current levels, we believe that the gross margins would be better from Q4FY19 into FY20 with the inventory issue and the lag effect of price hikes in industrial segment done away. The company is expected to continue to benefit from operational efficiency and thus, EBITDA margins would improve significantly in FY20 to 17.4%. Factoring in Q3 results, we have largely kept our sales estimates same and revised our FY19 PAT estimates lower by 7% and FY20 by 2%. EPS is expected to grow at a CAGR of 23% over FY18-20 and we maintain our BUY recommendation with a price target of Rs 367.

Key Risks to our rating and target

- Slowdown in demand
- Rising input costs due to higher crude prices and depreciating rupee.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4223	4552	5166	6112	6795
EBITDA	645	719	807	924	1185
EBIT	546	611	683	785	1027
PAT	371	474	461	529	698
EPS (Rs)	4	5	5	5	7
EPS growth (%)	40%	28%	-3%	15%	32%
ROE (%)	25%	26%	24%	22%	26%
ROCE (%)	28%	28%	27%	27%	32%
BV	16	20	23	26	30
P/B (X)	10.9	12.3	11.3	11.9	10.1
P/E (x)	45.8	49.5	54.0	56.5	42.8

3Q FY 19 Results
PAT lower than estimates

Strong Sales Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,339	1,298	1,483	1,490	1,617	20.8%	8.5%	4,552	5,166	13.5%
Other Income	10	12	16	12	15	50.4%	25.9%	55	46	-15.9%
Total Revenue	1,349	1,310	1,499	1,502	1,632	21.0%	8.6%	4,607	5,212	13.1%
COGS	776	762	897	913	1,006	29.6%	10.2%	2,592	3,010	16.1%
Gross Margin	42%	41%	39%	39%	38%	-4.2%	-0.9%	43%	42%	-1.3%
Employee Cost	87	91	98	105	101	15.5%	-4.0%	307	357	16.3%
Other Expenses	253	246	261	266	274	8.4%	3.3%	935	992	6.2%
EBITDA	223	200	227	207	236	6.0%	14.1%	719	807	12.3%
EBITDA Mar.	17%	15%	15%	14%	15%	-2.0%	0.7%	16%	16%	-0.2%
Depreciation	31	32	34	34	36	13.9%	5.6%	108	124	15.0%
EBIT	191	168	193	173	201	4.7%	15.8%	611	683	11.8%
Interest	8	6	4	8	11	40.8%	38.7%	16	25	51.4%
PBT	194	174	206	177	205	5.7%	15.4%	649	704	8.5%
Excpt Item	-	-	-	-	-	0.0%	0.0%	44	-	-100%
Tax	66	60	72	60	70	6.4%	17.1%	229	244	6.3%
Share of	2	(7)	1	(0)	(1)	-141%	174.3%	10	1	-93.6%
Minority Int	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
PAT	130	106	135	117	134	2.7%	14.1%	474	461	-2.7%
PAT Margin	10%	8%	9%	8%	8%	-1.5%	0.4%	10%	9%	-1.5%

Robust decorative volume growth drives revenue

BERGEPAINT reported consolidated sales growth of 20.8% YoY to Rs 1617 crores (est. Rs 1582 crores) with standalone revenue growing by 21% YoY to Rs 1460 crores (est. Rs 1430 crores) and robust growth in subsidiary businesses. The decorative business grew by 19% YoY in volumes as against our expectation of 15% in a delayed Diwali quarter, while the realisations grew lower than ~7% cumulative price hikes taken in current financial year due to lower product mix and higher promotional activities in the industry. The industrial/automotive business reported steady growth and strong performance was seen in BJN Nepal and Saboo coatings.

Reporting lowest Gross margins and EBITDA margins since FY16

The company reported a gross margin of 37.8% (est. 40.5%) due to RM inventory carried at higher cost in the company. The inventory status led the company to not benefit from the dramatic fall in crude prices in the quarter gone by. Going ahead, the gross margin is expected to improve once the inventory effect and price hike lag effect in industrial segment is done away with. Reported EBITDA margin of 14.6% (est. 17.3%) was primarily affected due to lower gross margins with the company continuing to enjoy operational efficiency benefits. The company reported a PAT of Rs 134 crores (est. 162 crores) for the quarter, indicating a PAT margin of 8.3%. With higher volume sales and improvement in margins, we expect the company to report a CAGR of 14.7% in sales and 23% in PAT over FY18-20.

Concall Highlights

- Decorative business top line showed improved performance over corresponding quarter in the previous year backed by price increases and late festive season
- Material costs as % to sales was higher mainly on account of raw material price increases and adverse forex movement. Industrial businesses were effected more than decorative segment on account of lag in price increase
- Impact of Volatility in crude oil prices, adverse movement in exchange rates continue to remain potential concerns
- Strong performance from BJN Nepal and Saboo Coatings
- More price hikes need to be taken in industrial segment. Even on decorative front, price hikes would be required to restore the gross margins
- Product mix and promotional activities should be the reason for lower realization in the whole industry, even after taking 5-6% price hikes
- Higher interest income includes a component of Interest arbitrage and should be seen net of other income
- Cumulative price hikes taken in this financial year is over 7%, weighted average comes to over 6% as a little less than 2% was taken in December
- There are tax benefits available in Assam. But there needs to be significant gains in profit post depreciation for the benefits to kick in.

Exhibit: Sales and Gross Margin %

Sales grew 20.8% YoY with gross margins lowest since FY16 at 37.8%

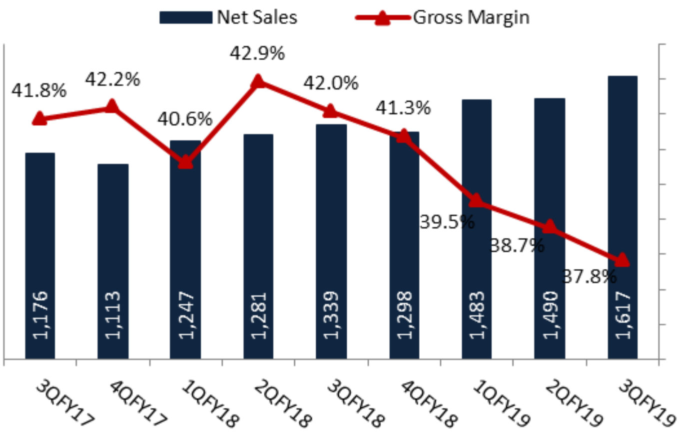


Exhibit: EBITDA and EBITDA margin %

However, operational efficiency helped in better EBITDA margin

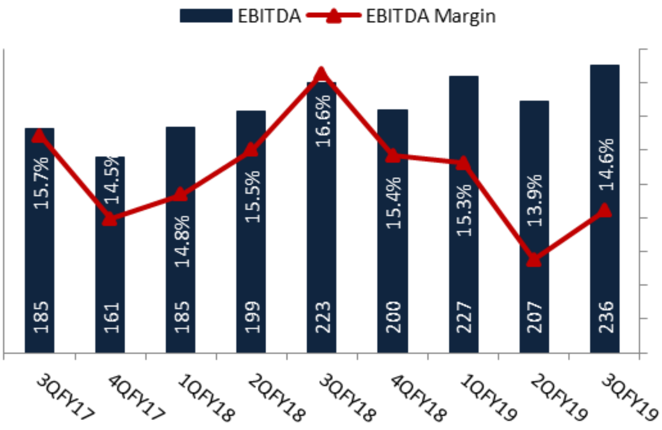


Exhibit: Return Ratios %

Strong profitability to drive return ratios higher

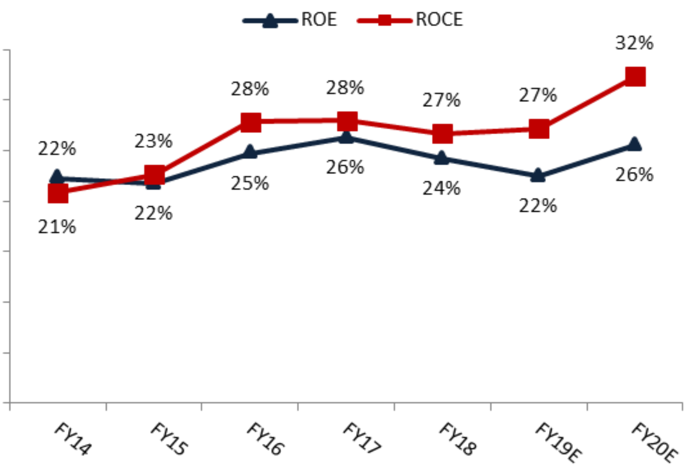


Exhibit: Decorative Volume Growth %

As per our calculations, the volume growth continues to be robust

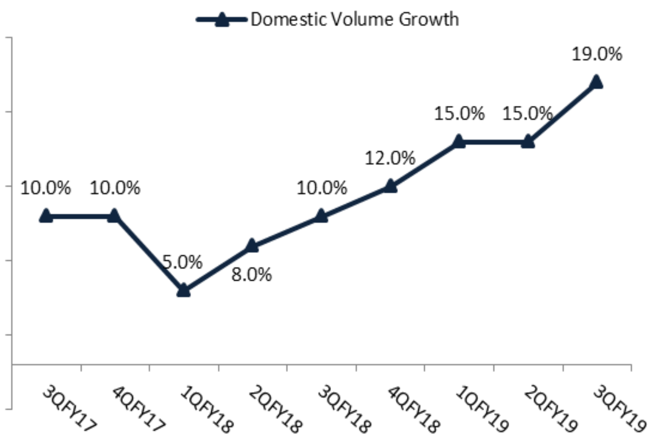


Exhibit: Sales and PAT

The growth tragectory is expected to be robust with PAT growing at a CAGR of 23% over FY18-20

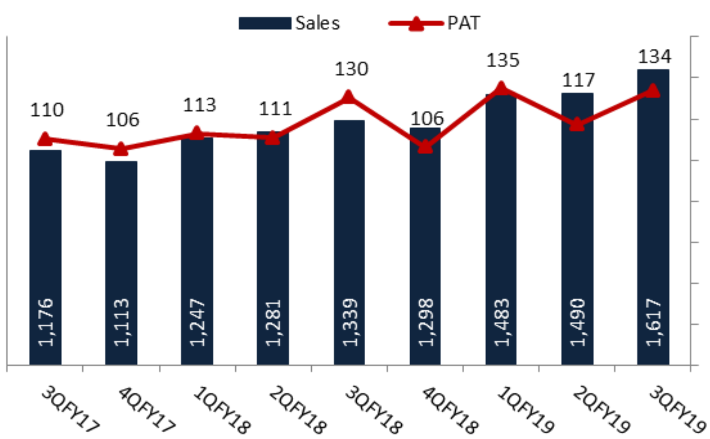
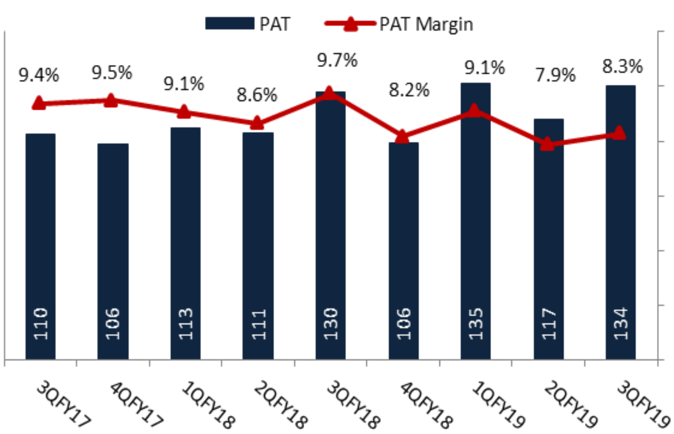


Exhibit: PAT and PAT Margin

PAT margins to improve with gross margins returning to its earlier ~40% levels



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	**69**	**69**	**69**	**97**	**97**	**97**	**97**
Reserves	1,051	1,245	1,493	1,804	2,097	2,416	2,857
Net Worth	**1,120**	**1,314**	**1,562**	**1,902**	**2,195**	**2,513**	**2,954**
Debt	528	584	310	406	422	454	232
Other Non Current Liab	78	68	81	97	97	97	97
Total Capital Employed	**1,727**	**1,965**	**1,952**	**2,405**	**2,713**	**3,064**	**3,283**
Net Fixed Assets (incl CWIP)	774	812	828	1,019	1,100	1,161	1,204
Investment in JVs	-	41.8	47.6	104.9	105.5	103.7	101.9
Other non-current assets	273	245	263	248	370	370	370
Non Current Assets	**1,048**	**1,099**	**1,138**	**1,373**	**1,575**	**1,635**	**1,676**
Inventory	696	694	733	935	1,007	1,242	1,323
Debtors	486	500	545	578	692	819	911
Cash & Bank	184	74	42	45	84	427	536
Other Current Assets	182	300	419	509	585	443	453
Current Assets	**1,547**	**1,568**	**1,739**	**2,068**	**2,368**	**2,931**	**3,222**
Creditors	544	538	670	761	955	1,178	1,255
Provisions	106	19	23	30	31	37	41
Other Current Liabilities	218	145	232	244	244	288	319
Curr Liabilities	**868**	**702**	**925**	**1,035**	**1,230**	**1,502**	**1,615**
Net Current Assets	**679**	**867**	**814**	**1,032**	**1,138**	**1,429**	**1,608**
Total Assets	**2,595**	**2,667**	**2,877**	**3,440**	**3,943**	**4,566**	**4,898**

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	**3,870**	**4,322**	**4,223**	**4,552**	**5,166**	**6,112**	**6,795**
Change (%)	16%	12%	-2%	8%	13%	18%	11%
Other Income	36	36	35	55	46	55	72
EBITDA	**431**	**511**	**645**	**719**	**807**	**924**	**1,185**
Change (%)	16%	18%	26%	11%	12%	14%	28%
Margin (%)	11%	12%	15%	16%	16%	15%	17%
Depr & Amor.	71	93	99	108	124	139	157
EBIT	**361**	**418**	**546**	**611**	**683**	**785**	**1,027**
Int. & other fin. Cost	47	50	27	16	25	30	24
EBT	**350**	**404**	**553**	**649**	**704**	**810**	**1,076**
Exp Item	-	-	-	44	-	-	-
Tax	101	139	189	229	244	279	376
share of profit/(loss) of associates	-	-	6	10	1	(2)	(2)
Minority Interest	-	-	-	-	-	-	-
Reported PAT	249	265	371	429	461	529	698
Adjusted PAT	**249**	**265**	**371**	**474**	**461**	**529**	**698**
Change (%)	14%	6%	40%	28%	-3%	15%	32%
Margin(%)	6%	6%	9%	10%	9%	9%	10%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	1.8	2.2	1.9	2.0	1.9	2.0	2.0
Debt-Equity Ratio	0.5	0.4	0.2	0.2	0.2	0.2	0.1
Interest Coverage Ratio	7.7	8.3	20.0	37.6	27.8	25.9	43.2
Capital Turnover Ratio	3.1	2.8	2.4	2.1	2.1	2.2	2.3
Fixed Asset Turnover Ratio	5.0	5.4	5.2	4.9	4.9	5.4	5.7
Inventory Days outstanding	108.3	100.0	108.3	131.7	122.2	122.2	122.2
Accounts Receivable Days outstanding	45.8	42.3	47.1	46.4	48.9	48.9	48.9
Accounts Payable Days outstanding	84.7	77.6	99.0	107.2	115.8	115.8	115.8
ROCE	20.9%	22.7%	27.9%	28.0%	26.7%	27.2%	32.4%
ROE	22.3%	21.7%	24.8%	26.3%	24.2%	22.5%	25.5%
FCF per Share	1.0	3.7	6.9	1.3	1.4	5.1	5.5
Price / EPS	31.9	54.7	45.8	49.5	54.0	56.5	42.8
Price / Book Value	7.1	11.0	10.9	12.3	11.3	11.9	10.1
EV/EBITDA	19.0	28.9	26.1	32.5	30.8	32.0	24.7
EV/Sales	2.1	3.4	4.0	5.1	4.8	4.8	4.3
Div Yield	1.0%	0.6%	0.8%	0.7%	0.7%	0.7%	0.9%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	**350**	**404**	**559**	**703**	**705**	**808**	**1,074**
(inc)/Dec in Working Capital	(26)	12	114	(128)	(128)	52	(70)
Non Cash Op Exp	45	76	73	22	98	84	85
Int Paid (+)	43	45	27	16	25	30	24
Tax Paid	(102)	(122)	(178)	(220)	(277)	(279)	(376)
CF from Op. Activities	**310**	**414**	**595**	**395**	**422**	**695**	**737**
(inc)/Dec in FA & CWIP	(242)	(160)	(118)	(264)	(290)	(200)	(200)
Free Cashflow	68	254	477	130	132	495	537
(Pur)/Sale of Inv	(79)	(38)	(148)	(37)	162	-	-
others	20	15	6	(7)	(56)	57	74
CF from Inv. Activities	**(301)**	**(184)**	**(259)**	**(308)**	**(183)**	**(143)**	**(126)**
inc/(dec) in NW	0	0	0	0	-	-	-
inc/(dec) in Debt	52	(15)	(232)	51	29	32	(221)
Int. Paid	(42)	(45)	(27)	(16)	(25)	(30)	(24)
Div Paid (inc tax)	(62)	(138)	(108)	(117)	(205)	(210)	(257)
others	-	-	-	0	-	-	-
CF from Fin. Activities	**(52)**	**(198)**	**(368)**	**(82)**	**(200)**	**(209)**	**(502)**
Inc(Dec) in Cash	**(43)**	**32**	**(32)**	**4**	**38**	**343**	**109**
Add: Opening Balance	227	47	74	42	45	84	427
Closing Balance	**184**	**79**	**42**	**45**	**84**	**427**	**536**

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Analyst's ownership of the stocks mentioned in the Report	NIL

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