

Industry	Consumers
Bloomberg	BRGR IN
BSE CODE	509480

Gross margins improve by 220bps QoQ

RATING	BUY
CMP	323
Price Target	360
Potential Upside	11%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	350/260
Mkt Capital (Rs Cr)	31401
Free float (%)	25%
Avg. Vol 1M (,000)	926
No. of Shares	97
Promoters Pledged %	0%

Research Analyst

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4QFY19 Result Update

- BERGEPAINT reported consolidated sales growth of 13.4% YoY to Rs 1472 crores with standalone revenue growing by 13.2% YoY and strong growth in subsidiary businesses
- The decorative business reported a volume growth of ~11% YoY in the quarter. The realisations grew by only ~2.5% YoY against a cumulative price hike of 7.2% over the last 1 year due to poor product mix and promotional activities.
- Q4FY19 gross margin improved by 220bps QoQ to 40% due to combined effect of decrease in RM prices and full quarter impact of price hike taken in December.
- EBITDA margin came at 14.4%, down 100bps YoY. However, given 130bps YoY fall in gross margins, the 30bps improvement in EBITDA margin can be attributed to lower other expenses with the rising sales volume.
- PAT for the quarter stood at Rs 112 crores indicating a PAT margin of 7.6%.
- There are two plant expansions underway, one at Jejuri (near Pune) which would commence operations from 1st July for industrial and protective coatings and other at Lucknow which would commence by Oct-Nov 2020 and would be the biggest decorative plant for the company.

View and Valuation

BERGEPAINT reported 17.4% YoY growth in its consolidated topline for FY19 on the back of strong decorative volume growth of 14.6% YoY and subsidiaries revenue growing by 26% YoY. For FY20, the management continues to guide that it expects the decorative segment to show improvement going forward and the infrastructure & protective segment to sustain its growth performance. We expect BERGEPAINT to deliver a 10.6% revenue growth in FY20. The company's gross margin (39% in FY19, down 270bps YoY) was hit by the industry-wide phenomenon of high input prices due to volatile crude and depreciated currency. However, the EBITDA margins were sustained at 14.5%, down only 110bps, on the back of strong operational efficiency due to higher volume sales in the decorative segment. As stated by the management, the prices of raw materials continue to decline or remain flat at the current levels of crude; we believe that the gross margins would improve substantially in FY20 to 41.8%. Further, maintaining operational efficiency, EBITDA margins is expected to expand to 17.4% in FY20. We largely maintain our estimates. BERGEPAINT currently trades at 45.6x FY20e EPS. We continue to remain positive on the growth prospects of the company and maintain our BUY recommendation with target price of Rs 360.

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	FY19	FY20E
Net Sales	4223	4552	5166	6062	6706
EBITDA	645	719	807	882	1168
EBIT	546	611	683	744	1022
PAT	371	474	461	498	688
EPS (Rs)	4	5	5	5	7
EPS growth (%)	40%	28%	-3%	8%	38%
ROE (%)	25%	26%	24%	21%	25%
ROCE (%)	28%	28%	27%	26%	32%
BV	16	20	23	25	30
P/B (X)	10.9	12.3	11.3	12.7	10.7
P/E (x)	45.8	49.5	54.0	63.1	45.6

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4QFY19 Results lower than estimates

Margins improve QoQ

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,298	1,483	1,490	1,617	1,472	13.4%	-8.9%	5,166	6,062	17.3%
Other Income	12	16	12	15	16	35.0%	8.9%	46	60	30.9%
Total Revenue	1,310	1,499	1,502	1,632	1,489	13.6%	-8.8%	5,212	6,122	17.5%
COGS	762	897	913	1,006	884	16.0%	-12.1%	3,010	3,700	22.9%
Gross Margin	41%	39%	39%	38%	40%	-1.4%	2.2%	42%	39%	-2.8%
Employee Cost	91	98	105	101	105	16.0%	4.6%	357	409	14.6%
Other Expenses	246	261	266	274	271	10.5%	-1.1%	992	1,072	8.1%
EBITDA	200	227	207	236	212	5.8%	-10.3%	807	882	9.2%
EBITDA Mar.	15%	15%	14%	15%	14%	-1.0%	-0.2%	16%	15%	-1.1%
Depreciation	32	34	34	36	35	8.2%	-2.6%	124	138	10.9%
EBIT	168	193	173	201	177	5.3%	-11.7%	683	744	8.9%
Interest	6	4	8	11	10	51.6%	-11.6%	25	32	31.7%
PBT	174	206	177	205	184	5.7%	-10.1%	704	772	9.6%
Excpt Item	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	60	72	60	70	72	19.3%	3.2%	244	273	12.0%
Share of	(7)	1	(0)	(1)	(0)	-95%	-59.4%	1	(1)	-241%
Minority Int	-	-	-	-	0	0.0%	0.0%	-	0	0%
PAT	106	135	117	134	112	5.3%	-16.4%	461	498	8.0%
PAT Margin	8%	9%	8%	8%	8%	-0.6%	-0.7%	9%	8%	-0.7%

Steady Revenue growth performance

BERGEPAINT reported consolidated sales growth of 13.4% YoY to Rs 1472 crores (est. Rs 1522 crores) with standalone revenue growing by 13.2% YoY to Rs 1353 crores (est. Rs 1406 crores) and strong 15% growth in subsidiary businesses. The decorative business grew by ~11% YoY in volumes as against our expectation of 14% in the quarter, while the realisations grew by only ~2.5% YoY against a cumulative price hike of 7.2% over the last 1 year due to poor product mix and promotional activities. The industrial/automotive business was impacted for the quarter on account of continued weakness in automotive sector. The protective coatings business delivered robust top line growth.

Gross margins improve sequentially

The company reported a gross margin of 40% (est. 41.1%) due to combined effect of decrease in RM prices and full quarter impact of price hike taken in December. Going ahead, the gross margin is expected to improve if the crude prices trade around current levels and price hike lag effect in industrial segment is done away with. Reported EBITDA margin of 14.4% (est. 16.7%) was primarily affected due to lower gross margins with the company continuing to enjoy operational efficiency benefits. The company reported a PAT of Rs 112 crores (est. 143 crores) for the quarter, indicating a PAT margin of 7.6%. With higher volume sales, we expect the EBITDA margins to expand for the company to 17.3% in FY20.

Concall Highlights

- The RM prices declined in Q4FY19 and continue to decline or remain flat in FY20
- Strong operations from BJN Nepal, Saboo Coatings and Bolix SA
- Company acquired 51% stake in Saboo Hesse Wood Coatings on January 28, 2019. This is specialty wood coatings company in partnership with Hesse Coatings of Germany.
- Berger Rock is a JV with Rock Paints of Japan and commenced operations from Feb, 2019.
- The company has not seen much decline in terms of demand across tier 1, 2 and 3 cities.
- Auto paints JV with Nippon: Small base to help growth (relatively to industry) and so company will less affected. The company has broken into major car manufacturer accounts. Margins can be strained due to competitive scenario. The company is optimistic and there is no change of plans due to auto stress.
- Capex for FY20 to be a little more than Rs 200 crores
- Dealer growth in FY19 stood at 10%
- The company added about 5000 kl/month capacity in FY19 across all plants.
- British paints continue to perform reasonably well and the growth numbers for the whole year is robust
- Currency fluctuation in Russian operations impacted international business margins. Nepal faced strained margins due to difficulty in taking price hikes.
- Higher employee costs due to housekeeping issues like employee counts were higher at some plants. This has been sorted and employee expenses would be stable going ahead.

Exhibit: Sales and Gross Margin %

Gross margins improve sequentially to 40% with lower cost pressures and inventory effect fading off

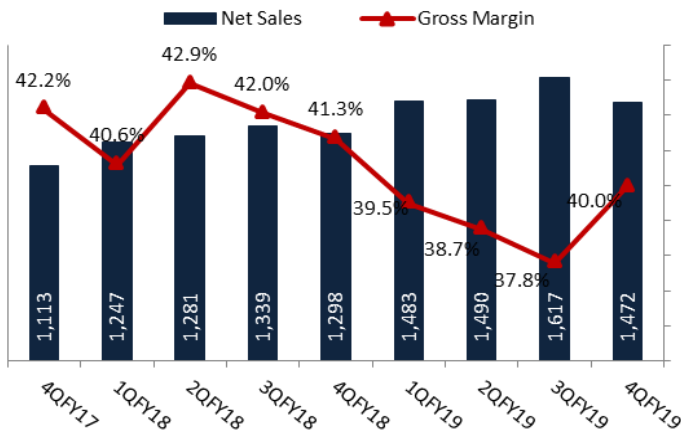


Exhibit: EBITDA and EBITDA margin %

Operational efficiency helped in better EBITDA margin

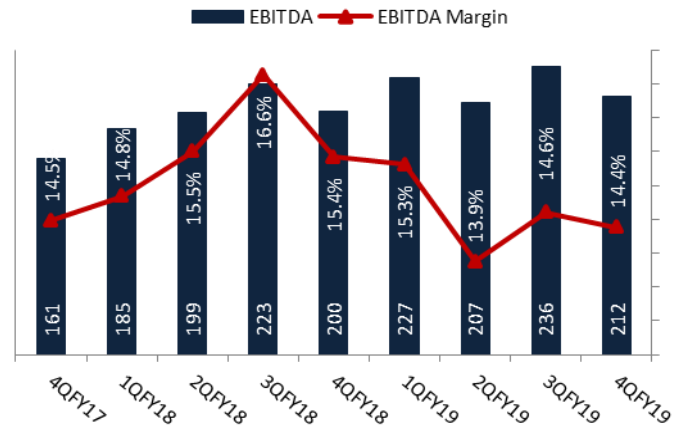


Exhibit: Return Ratios %

Strong profitability to drive return ratios higher

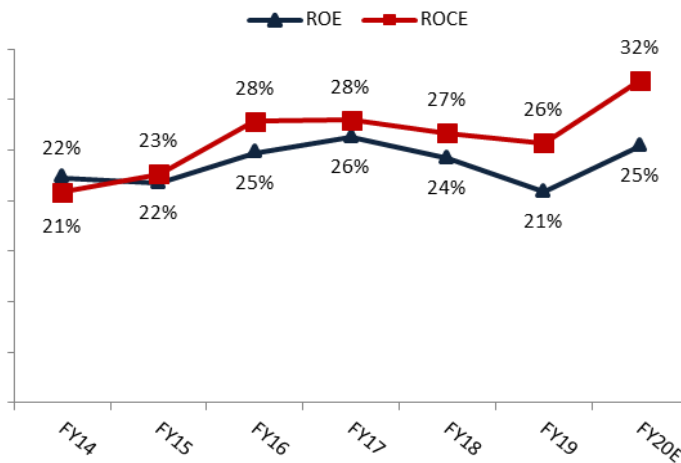


Exhibit: Decorative Volume Growth %

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

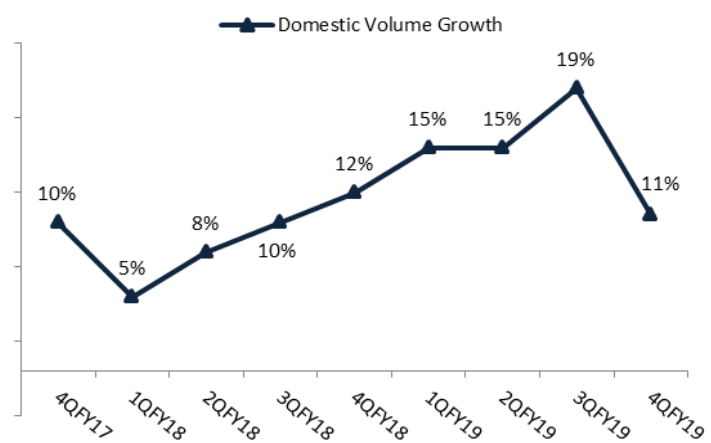


Exhibit: Sales and PAT

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

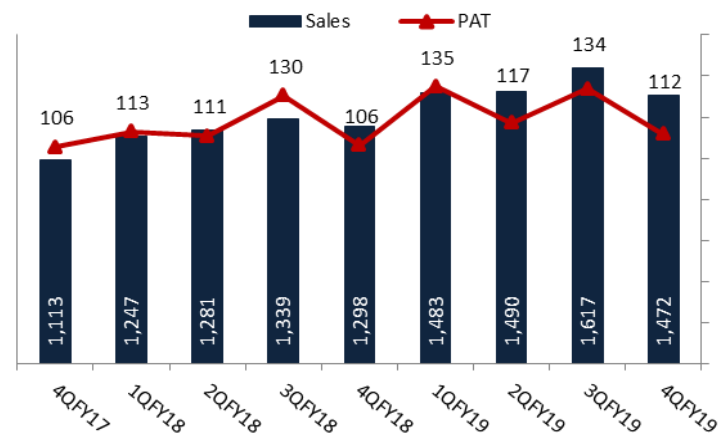
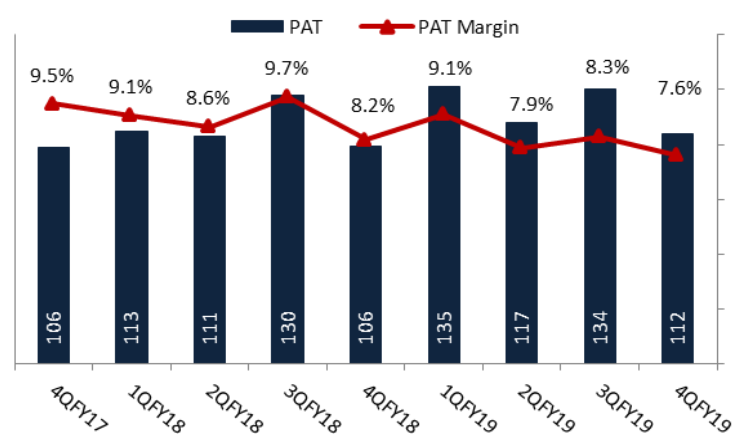


Exhibit: PAT and PAT Margin

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	FY19	FY20E
Share Capital	69	69	69	97	97	97	97
Reserves	1,051	1,245	1,493	1,804	2,097	2,376	2,841
Net Worth	1,120	1,314	1,562	1,902	2,195	2,473	2,939
Minority Interest	-	-	-	-	-	3	3
Debt	528	584	310	406	422	484	276
Other Non Current Liab	78	68	81	97	97	115	115
Total Capital Employed	1,727	1,965	1,952	2,405	2,713	3,075	3,333
Net Fixed Assets (incl CWIP)	774	812	828	1,019	1,100	1,273	1,347
Investment in JVs	-	41.8	47.6	104.9	105.5	144.1	144.1
Other non-current assets	273	245	263	248	370	351	351
Non Current Assets	1,048	1,099	1,138	1,373	1,575	1,768	1,842
Inventory	696	694	733	935	1,007	1,234	1,301
Debtors	486	500	545	578	692	671	743
Cash & Bank	184	74	42	45	84	57	279
Other Current Assets	182	300	419	509	585	632	541
Current Assets	1,547	1,568	1,739	2,068	2,368	2,595	2,864
Creditors	544	538	670	761	955	999	1,053
Provisions	106	19	23	30	31	32	35
Other Current Liabilities	218	145	232	244	244	257	284
Curr Liabilities	868	702	925	1,035	1,230	1,288	1,373
Net Current Assets	679	867	814	1,032	1,138	1,306	1,491
Total Assets	2,595	2,667	2,877	3,440	3,943	4,363	4,706

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	3,870	4,322	4,223	4,552	5,166	6,062	6,706
Change (%)	16%	12%	-2%	8%	13%	17%	11%
Other Income	36	36	35	55	46	60	72
EBITDA	431	511	645	719	807	882	1,168
Change (%)	16%	18%	26%	11%	12%	9%	32%
Margin (%)	11%	12%	15%	16%	16%	15%	17%
Depr & Amor.	71	93	99	108	124	138	146
EBIT	361	418	546	611	683	744	1,022
Int. & other fin. Cost	47	50	27	16	25	32	35
EBT	350	404	553	649	704	772	1,059
Exp Item	-	-	-	44	-	-	-
Tax	101	139	189	229	244	273	370
share of profit/(loss) of associates	-	-	6	10	1	(1)	(1)
Minority Interest	-	-	-	-	-	0	-
Reported PAT	249	265	371	429	461	498	688
Adjusted PAT	249	265	371	474	461	498	688
Change (%)	14%	6%	40%	28%	-3%	8%	38%
Margin(%)	6%	6%	9%	10%	9%	8%	10%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Current Ratio	1.8	2.2	1.9	2.0	1.9	2.0	2.1
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	23.0	29.4
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	5.1	5.1
Inventory Days outstanding	108.3	100.0	108.3	131.7	122.2	121.7	121.7
Accounts Receivable Days outstanding	45.8	42.3	47.1	46.4	48.9	40.4	40.4
Accounts Payable Days outstanding	84.7	77.6	99.0	107.2	115.8	98.6	98.6
ROCE	20.9%	22.7%	27.9%	28.0%	26.7%	25.7%	31.9%
ROE	22.3%	21.7%	24.8%	26.3%	24.2%	20.9%	25.4%
FCF per Share	1.0	3.7	6.9	1.3	1.4	1.6	6.3
Price / EPS	31.9	54.7	45.8	49.5	54.0	63.1	45.6
Price / Book Value	7.1	11.0	10.9	12.3	11.3	12.7	10.7
EV/EBITDA	19.0	28.9	26.1	32.5	30.8	35.7	26.5
EV/Sales	2.1	3.4	4.0	5.1	4.8	5.2	4.6
Div Yield	1.0%	0.6%	0.8%	0.7%	0.7%	0.6%	0.8%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	350	404	559	703	705	771	1,058
(inc)/Dec in Working Capital	(26)	12	114	(128)	(128)	(142)	37
Non Cash Op Exp	45	76	73	22	98	87	74
Int Paid (+)	43	45	27	16	25	32	35
Tax Paid	(102)	(122)	(178)	(220)	(277)	(273)	(370)
CF from Op. Activities	310	414	595	395	422	475	834
(inc)/Dec in FA & CWIP	(242)	(160)	(118)	(264)	(290)	(315)	(220)
Free Cashflow	68	254	477	130	132	159	614
(Pur)/Sale of Inv	(79)	(38)	(148)	(37)	162	(23)	-
others	20	15	6	(7)	(56)	18	72
CF from Inv. Activities	(301)	(184)	(259)	(308)	(183)	(320)	(148)
inc/(dec) in NW	0	0	0	0	-	-	-
inc/(dec) in Debt	52	(15)	(232)	51	29	62	(208)
Int. Paid	(42)	(45)	(27)	(16)	(25)	(32)	(35)
Div Paid (inc tax)	(62)	(138)	(108)	(117)	(205)	(210)	(222)
others	-	-	-	0	-	-	-
CF from Fin. Activities	(52)	(198)	(368)	(82)	(200)	(181)	(464)
Inc(Dec) in Cash	(43)	32	(32)	4	38	(27)	222
Add: Opening Balance	227	47	74	42	45	84	57
Closing Balance	184	79	42	45	84	57	279

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