

BERGEPAIN

BUY

17-Apr-17

INDUSTRY - CHEMICAL
BSE Code - 509480
NSE Code - BERGEPAIN
NIFTY - 9151

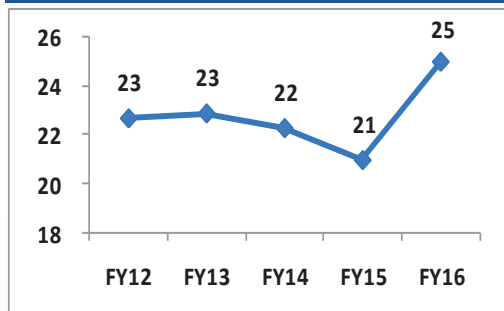
Company Data

CMP	236
Target Price	267
Previous Target Price	
Upside	
Change from Previous	
52wk Range H/L	277/174
Mkt Capital (Rs Cr)	22,925
Av. Volume (,000)	745

Share Holding Pattern %

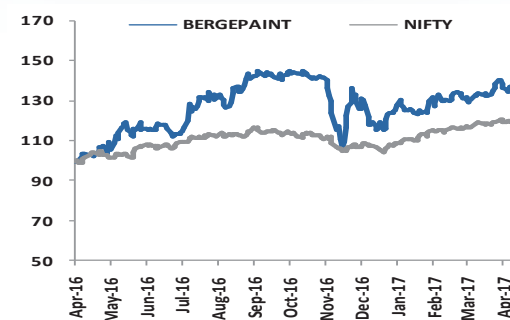
	4QFY17	3QFY17	2QFY17
Promoters	74.99	74.99	74.99
Public	25.01	25.01	25.01
Others			
Total	100.0	100.0	100.0

ROE %



Stock Performance %

	1Mn	3Mn	1Yr
Absolute	2.1	6.1	30.9
Rel.to Nifty	2.1	2.2	15.3



BINEETA KUMARI

bineeta.kumari@narnolia.com

Key Highlights of the report:

- ✓ Despite demonetization and price dip effects, the decorative segment registered a double digit volume growth (10%). Many new products were launched which witnessed good growth amid demonetisation.
- ✓ Margins are expected to recover as the company took 3% price hike in decorative business with effect from Mar 1, 2017.
- ✓ Recently, the company commences operations at Assam plant. With the commencement of Assam Plan tax rate will decline. The company will enjoy a 10 year tax holiday at new plant and will also benefit from VAT exemption for sales in Assam.
- ✓ With the Commencement of Assam Plant and other key beneficiaries (Urban recovery, GDP revival, GST, increased infrastructure spending) **We recommend "BUY" on the stock with the target price of Rs 267.**

Financials/Valuation

	FY12	FY13	FY14	FY15	FY16
Net Sales	2,948	3,346	3,870	4,322	4,634
EBITDA	303	371	431	511	655
EBIT	256	314	361	418	555
PAT	180	218	249	265	370
EPS (Rs)	5	6	7	4	5
ROE (%)	23	23	22	21	25
ROCE (%)	15	15	14	14	20
BV	98	92	88	85	99
P/B (X)	5	7	7	12	12
P/E (x)	20	31	32	55	46

Recent Development :

- ✓ **BERGEPAIN commences operations at Assam plant :**
The company has commenced commercial operations of their integrated paint and putty plant at Nagaon in Assam. The plant has an annual capacity of 48,000 kilolitres per annum of water based paints and 24 kilolitres of solvent based paints. It would also manufacture 14,000 mt of resin and 24,000 mt of wall putty With this, Company will have two plants in Assam, the other one being at Nalbari.
- ✓ **BERGEPAIN signs MoU with Chugoku Marine Paints :**
The company has entered into an MoU with Chugoku Marine Paints of Japan for "cooperation and collaboration" in the field of marine and related industrial paints. The plan is to establish a joint venture company. The MoU also allows for joint efforts in marketing, supply, purchasing marine related industrial paints.

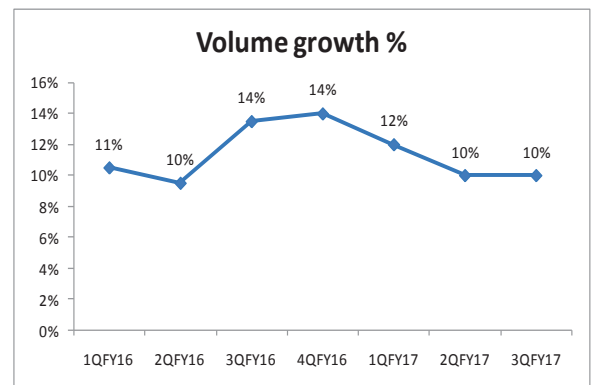
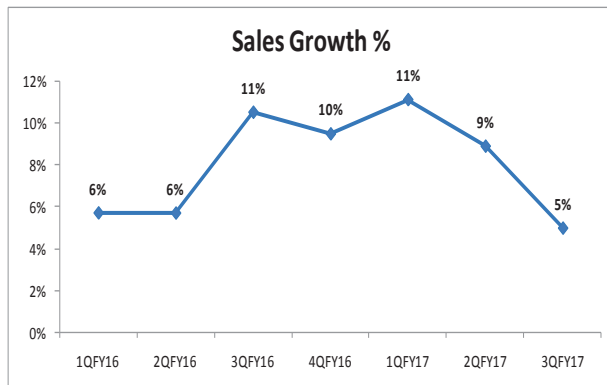
Other expenses saw one-time hit, which put pressure on margins though will not be impacted going forward.

Quarterly Performance

Financials	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY %	QoQ%	FY15	FY16	YoY %
Net Sales	1,235	1,139	1,246	1,271	1,297	5%	2%	4,322	4,634	7%
Other Income	7	11	10	18	8	9%	-56%	36	34	-4%
COGS	643	575	621	644	684	6%	6%	2,531	2,573	2%
Employee Cost	71	69	75	76	80	12%	5%	253	281	11%
Other Expenses	210	225	227	248	227	8%	-8%	1,027	1,125	10%
EBITDA	192	156	195	179	184	-4%	3%	511	655	28%
Depreciation	25	24	26	27	27	7%	0%	93	100	8%
Interest	6	5	3	5	4	-23%	-13%	50	29	-42%
PBT	168	138	176	165	160	-5%	-3%	404	561	39%
Tax	56	47	59	73	52	-7%	-28%	139	191	37%
PAT	112	93	120	137	110	-2%	-20%	265	370	40%

Volume Growth Remained Healthy despite challenges.

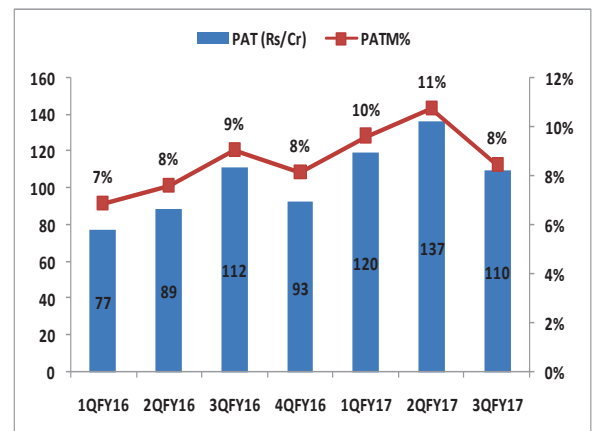
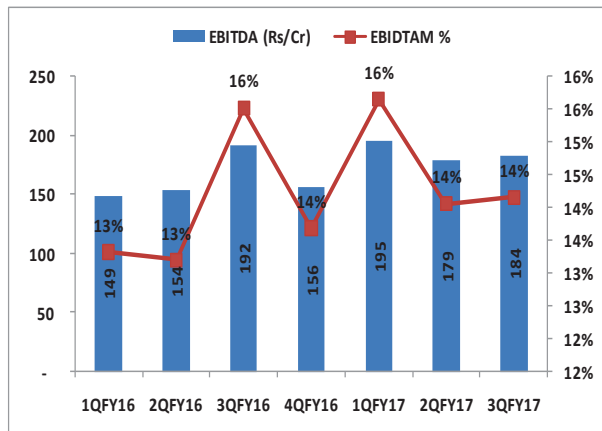
- ✓ Net sales grew by 5% YoY to Rs 1297 Cr against Rs 1235 Cr in 3QFY16. Decorative segment show reasonable growth despite demonetization and price dip.
- ✓ Volume growth stood in double digits (10%) led by improvement in product mix, strong monsoon, and new product launch.
- ✓ Reported PAT for the quarter stood at Rs110 Cr (-2% YoY) against Rs 112 Cr in 3QFY16.



Margin Performance

Margin %	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)	FY15	FY16	YoY(+/-)
Gross Margin	48%	50%	50%	49%	47%	-1%	-2%	41%	44%	3%
EBITDA Margin	16%	14%	16%	14%	14%	-1%	0%	12%	14%	2%
PAT Margin	9%	8%	10%	11%	8%	-1%	-2%	6%	8%	2%

- ✓ Gross margin down 65 bps impacted by increase in input cost while EBITDA margin was down by 137 bps due to high employee costs (12% YoY) and one time hit of other expenses (8% YoY).
- ✓ To offset the impact of increase in input cost the company have initiated 3% hike in decorative prices.
- ✓ The impact of rising crude prices was lower in Decorative segment due to increase in no. of share of water based paint rather than solvent based paint.
- ✓ PAT margin down by 100bps YoY due to lower gross margin.



Concall Highlights:

- ✓ Volume growth stood in double digits (10%).
- ✓ Expects demand to improve going forward.
- ✓ Confident of volume growth to be in the range of 1.5-1.6x to GDP growth.
- ✓ Tier 1 and 2 cities were impacted more than tier 3 for the company. Tier 3 was better because favourable monsoon has started showing results.
- ✓ Growth will be driven by semi urban and rural markets, expansion of distribution network, innovations and new product launches.
- ✓ Both in standalone and JV (joint venture) businesses the company added new clients in auto segment. More clients are expected to be added in the JV.
- ✓ Berger signed an MoU with Promat (USD3bn company of Belgium) for co-operation in the field of fire protection and high performance insulation coating in India, Nepal and Bangladesh, which entails production, distribution and supply of specialised fire resistant coatings. The segment is very small in the overall industrial business of the company.
- ✓ Expects both gross and EBITDA margins to be stable.
- ✓ FY17 capex guidance of Rs 150Cr.

View & Valuation

The implementation of One Rank One Pension (OROP), Seventh Pay Commission, revival of MGNREGA scheme, setting up of smart cities and strong govt. initiatives on infrastructure development are likely to enhance demand both in rural and urban markets. Government's ambitious plan "Housing for All by 2022" will be major growth driver for the company. Implementation of GST will boost company's market share going forward. With the commencement of Assam Plant the company will enjoy a 10 year tax holiday at new plant and will also benefit from VAT exemption for sales in Assam. Recent MoU with Chugoku Marine Paints of Japan will help to expand company's footprint in industrial paint segment. Thus, considering strong revival in Urban and rural demand, GST implementation and commencement of Assam Plant, **We remain positive on the stock and recommend "BUY" with the target Price of Rs 267.**