

Steady numbers; Maintain Buy

Q2FY24 Result Update | Sector: Paints | November 03, 2023

BUY

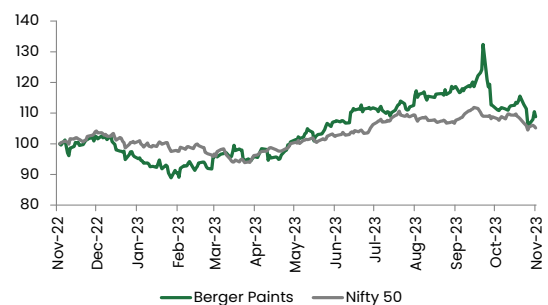
CMP (Rs)	549
Target Price (Rs)	693
Potential Upside	26.3%
Sensex	64,481
Nifty	19,239

Key Stock data

BSE Code	509480
NSE Code	BERGEPAIN
Bloomberg	BRGR:IN
Shares o/s, Cr (FV 1)	116.6
Market Cap (Rs Cr)	63,991
3M Avg Volume	1,233,037
52 week H/L	723/527

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	75.0	75.0	75.0
FII	10.6	10.8	10.9
DII	3.5	3.8	4.1
Others	10.9	10.4	10.0

1 Year relative price performance

1 year P/E Forward (x)

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Single digit revenue growth but double digit growth in volumes: Berger paints reported single digit consolidated revenue growth of 3.6% YoY while subdued growth of 8.7% sequentially to Rs 2,767.3cr and its standalone business grew just by 2.8% YoY but volume grew in double digit of 10.9%. Amongst segments decorative business growth was mixed as in the first half it remained subdued because of lower offtake of interior and exterior emulsion, erratic monsoon, high base last year, extended festive season which led to postponed demand to next quarter while demand started improving towards the latter half. On the flip side, construction chemical, waterproofing coupled with protective & powder coating and Automotive & industrial segment saw consistent growth. In the International market, strong growth was reported from Bolix Poland while subdued performance continued from Nepal business.

Improvement in margin was strong: Berger paints Gross profit margin came in at 41.1% in Q2FY24, up by 582bps YoY and 130bps QoQ and gross profits grew healthy by 20.7% YoY but declined by 5.7% QoQ to Rs 1,137.9cr. Also its EBITDA grew by 30.1% and margin improved by 349bps YoY but sequentially EBITDA declined by 14.9% with de-growth in margin at 126bps. Basically, the growth in profit & margin as compared to last year was led by decline in raw material cost as well as other expenses and better top-line performance. Also, its newly launched products such as long life and glamor are seeing strong traction and meanwhile its low margin products enamels delivered muted sales that aided margin growth. Further PAT grew by 33.1% YoY but declined by 17.7% QoQ to Rs 292.1cr and margin at 10.6%, up by 234bps YoY but declined by 116bps QoQ.

Key Highlights: 1) Market share in India operation increased above 20% in HIFY24 as compared to 19.3% in FY23 led by expansion in distribution network, increase in construction chemical helping in gaining share. 2) Standalone volume growth was at 10.9%. 3) The company has spent some of its gross margin savings towards advertising in digital. 4) It added 2000+ retail touchpoints in Q2FY24 as well as Installed 1700+ Colorbank machines. 5) Recently the company has introduced an AI driven application, "Berger MY COLOUR" App with 2500+ shades. 6) Berger is not a strong player in Karnataka. 7) Capacity expansion for FY25 at west Bengal for industrial paints and construction chemicals with capacity of 3500 KL/MT and some brownfield expansion in existing facilities. Also it has further plans to come up with a greenfield facility in Odisha for manufacturing of both decorative and industrial paints and the construction & commissioning to be completed by end of 2027. 8) Management remains optimistic on the growth outlook in Q3 and expects double digit top-line growth with margins to be in the range of 17-18%.

Outlook & Valuation: Berger Paints reported decent numbers for Q2FY24 with double digit volume growth and strong improvement in margin while its revenue in value was in single digit. Going ahead, we remain optimistic as well as management outlook for Q3FY24 and thereon is positive as it expects top-line and margin growth to be driven by healthy festive demand, improved rural demand and higher spending by government on infra & housing. Additionally, margins to improve led by easing raw material prices and healthy product mix. On the financial front, we estimate its revenue/EBITDA to grow at 21%/41% CAGR over FY23-25E and maintain a **Buy** rating with a price target of **Rs 693**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	8,762	10,568	12,681	15,471
EBITDA	1,332	1,487	2,270	2,986
EBITDAM (%)	15.2	14.1	17.9	19.3
APAT	834	860	1,408	1,879
APATM (%)	9.5	8.1	11.1	12.1
EPS (Rs)	8.6	8.9	12.1	16.1
PE (x)	64.0	62.0	45.4	34.0
RoE (%)	21.2	19.1	25.8	27.8

Source : RBL Research

Net Sales grew just by 3.6% YoY because of lower offtake of interior and exterior emulsion, erratic monsoon, extended festive season

Gross & EBITDA margin improved led by moderation in raw material cost

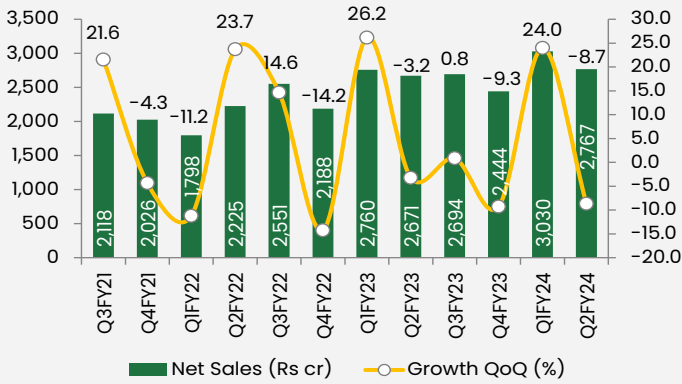
P&L Account Quarterly – consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net Sales	2,767.3	2,670.9	3.6	3,029.5	(8.7)
Cost of Raw Materials	1,498.3	1,592.1	(5.9)	1,481.0	1.2
Purchase of Finished Goods	220.6	238.4	(7.5)	247.6	(10.9)
(Increase) / Decrease In Stocks	(89.5)	(102.4)	-	94.5	-
Total Raw material cost	1,629.4	1,728.1	(5.7)	1,823.1	(10.6)
Gross Profit	1,137.9	942.9	20.7	1,206.4	(5.7)
Gross Margins (%)	41.1	35.3	582bps	39.8	130bps
Employee Cost	190.2	160.4	18.6	166.9	14.0
Other Expense	474.0	418.5	13.3	482.8	(1.8)
Total Expenditure	2,293.7	2,307.0	(0.6)	2,472.8	(7.2)
EBITDA	473.7	364.0	30.1	556.8	(14.9)
EBITDA Margins (%)	17.1	13.6	349bps	18.4	-126bps
Depreciation	82.9	62.5	32.7	78.2	6.0
EBIT	390.8	301.5	29.6	478.5	(18.3)
Other Income	15.3	12.6	21.5	13.6	12.5
Interest	21.1	24.1	(12.6)	19.7	7.0
PBT	385.0	289.9	32.8	472.4	(18.5)
Shares of profits/(loss)	3.8	3.1	25.6	3.8	1.6
PBT	388.8	293.0	32.7	476.2	(18.3)
Tax	96.7	73.5	31.6	121.3	(20.3)
PAT	292.1	219.5	33.1	354.9	(17.7)
PAT Margin (%)	10.6	8.2	234bps	11.7	-116bps
EPS (Rs)	3.0	2.3	33.1	3.7	(17.7)

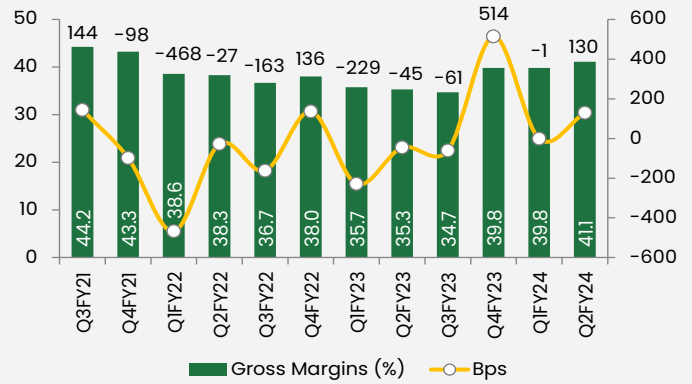
Source : RBL Research

Story in charts

Revenue grew by 3.6% YoY but declined by 8.7% QoQ

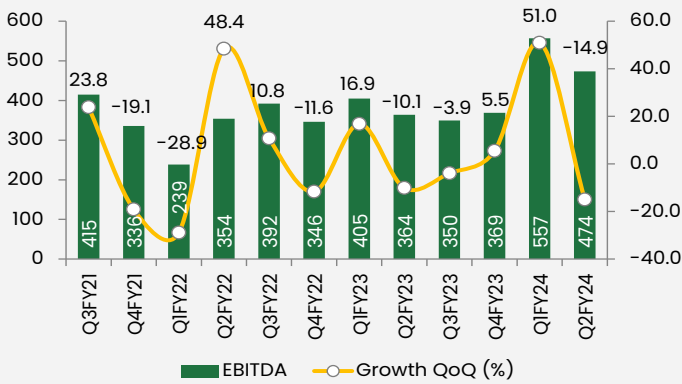


Gross Margins improved by 586bps YoY and 130bps QoQ

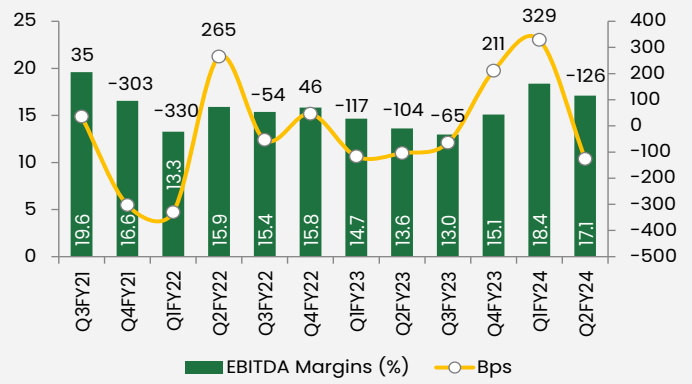


Source : RBL Research

EBITDA grew by 30.0% YoY but down by 14.9% QoQ

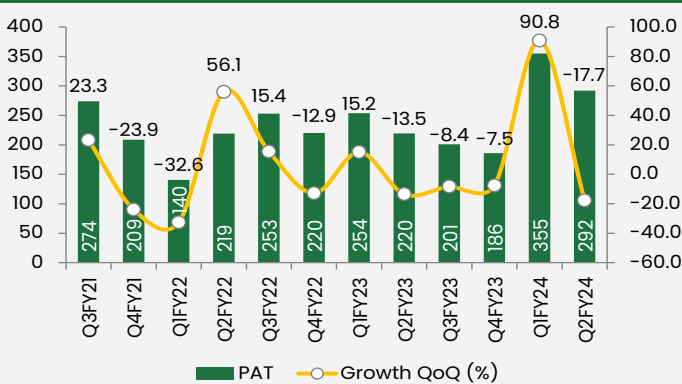


EBITDA Margin increased by 349bps YoY but decreased by 126bps QoQ

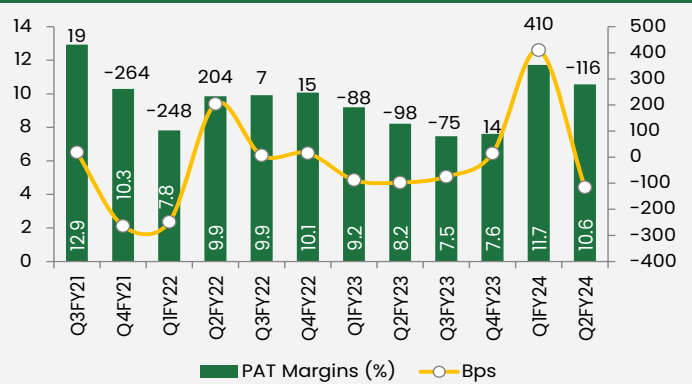


Source : RBL Research

PAT grew by 33.1% YoY but declined by 17.7% QoQ



PAT Margins improved by 234bps YoY but decreased by 116bps QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	8,762	10,568	12,681	15,471
Expenditure				
Cost of materials	5,046	5,853	6,721	8,045
Purchase of stock in trade	764	971	1,154	1,346
(Increase) / Decrease In Stocks	(381)	(93)	(127)	(155)
Total raw materials	5,428	6,731	7,748	9,236
Gross Profit	3,333	3,837	4,933	6,235
Gross Margins %	38.0	36.3	38.9	40.3
Employee cost	543	609	697	851
Other expenses	1,459	1,741	1,966	2,398
Total expenditure	7,430	9,081	10,411	12,485
EBITDA	1,332	1,487	2,270	2,986
EBITDAM (%)	15.2	14.1	17.9	19.3
Depreciation	227	264	317	387
PBIT	1,105	1,223	1,953	2,599
Other income	65	52	62	75
Interest expenses	51	99	120	146
PBT	1,119	1,176	1,895	2,529
Tax	289	302	487	650
Reported PAT	830	874	1,408	1,879
Exceptional Income / Expenses	4	(13)	-	-
PAT (after Exceptional)	834	860	1,408	1,879
PAT Margin (%)	9.5	8.1	11.1	12.1
EPS (Rs)	8.6	8.9	12.1	16.1

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	97	97	117	117
Reserves & Surplus	3,830	4,397	5,339	6,636
Total Shareholder's Fund	3,927	4,494	5,456	6,752
Minority Interest	7	8	13	16
Long term borrowings	10	8	14	17
Short term borrowing	658	760	912	1,112
Total Debt	668	768	926	1,130
Deferred tax liabilities	71	74	89	109
Long term provision	12	12	14	17
Other long term liabilities	353	415	498	607
Total	435	501	601	734
Current Liabilities				
Trade payables	1,803	1,766	2,119	2,585
Short term provisions	40	67	81	98
Other current liabilities	333	363	436	532
Total	2,176	2,196	2,636	3,215
Total liabilities	7,213	7,967	9,632	11,847
Application of Assets				
Net Block	1,911	3,050	3,657	4,385
Current work in process	606	110	110	110
Goodwill on consolidation	276	282	282	282
Non current investment	147	130	156	248
Tax assets	60	69	83	101
Other non-current assets	156	162	194	236
Total	3,155	3,803	4,482	5,362
Current Assets				
Current investments	87	53	64	78
Inventories	2,316	2,319	2,783	3,395
Trade receivables	1,054	1,243	1,492	1,820
Cash balance	103	116	336	640
Bank balance	210	129	129	129
Short term loans and advances	-	4	5	6
Other current assets	288	300	342	418
Total	4,058	4,164	5,150	6,485
Total assets	7,213	7,967	9,632	11,847

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	1,119	1,162	1,895	2,529
Add: Depreciation	227	264	317	387
Add: Interest cost	51	99	120	146
Other Inc/Int. Rec.	(20)	(16)	-	-
Others	(24)	34	-	-
Operating profit before WC	1,353	1,543	2,332	3,061
Changes in working capital	(487)	(260)	(262)	(366)
Cash from Operations	866	1,284	2,070	2,696
Less: Taxes	(299)	(308)	(487)	(650)
Cash flow from Operations	566	976	1,583	2,046
Net cash used in Investing				
Purchase of fixed assets	(774)	(748)	(924)	(1,115)
Purchase of investments	130	36	(37)	(105)
Sales of fixed assets	14	4	-	-
Div. Income/Interest Rec.	25	17	-	-
Others	83	90	-	-
Cash flow from investing	(521)	(600)	(960)	(1,220)
Cash flow from Financing				
Proceeds of borrowings	286	8,414	159	204
Sales of borrowings	-	(8,232)	-	-
Dividend (Incl dividend tax)	(272)	(301)	(466)	(583)
Interest cost	(23)	(61)	(120)	(146)
Others	(70)	(182)	5	3
Cash flow from Financing	(78)	(363)	(403)	(522)
Net cash Inflow/Outflow	(33)	13	220	304
Opening cash	136	103	116	336
Closing cash	103	116	336	640

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	8.6	8.9	12.1	16.1
Book value per share (Rs)	40.4	46.3	46.8	57.9
Dividend per share (Rs)	2.8	3.1	4.0	5.0
Dividend Yield (%)	0.5	0.6	0.7	0.9
Dividend Payout (%)	32.6	35.0	33.1	31.0
Profitability Ratios				
EBITDAM(%)	15.2	14.1	17.9	19.3
PBTM (%)	12.8	11.1	14.9	16.3
NPM (%)	9.5	8.1	11.1	12.1
RoE (%)	21.2	19.1	25.8	27.8
RoCE (%)	24.1	23.2	30.6	33.0
Efficiency Data				
Debt-Equity Ratio	0.2	0.2	0.2	0.2
Interest Cover Ratio	21.8	12.3	16.3	17.8
Fixed Asset Ratio	0.2	0.3	0.3	0.3
Debtors (Days)	43.9	42.9	42.9	42.9
Inventory (Days)	96.5	80.1	80.1	80.1
Payable (Days)	75.1	61.0	61.0	61.0
WC (Days)	65.3	62.1	62.1	62.1
Valuation				
P/E (x)	64.0	62.0	45.4	34.0
P/BV	13.6	11.9	11.7	9.5
EV/EBITDA	40.5	36.3	28.4	21.6
EV/Sales	6.2	5.1	5.1	4.2

Source : RBL Research

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		Yes	No
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Nature of Interest (if answer to F (a) above is Yes :

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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