

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	BRGR.BO
Bloomberg code	BRGR IN
Market cap. (US\$ mn)	376
6M avg. daily turnover (US\$ mn)	0.6
Issued shares (mn)	319
Target price (Rs)	61

#### Performance (%) 1M 3M 12M

Absolute	(7)	25	87
Relative	0	21	7

#### Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	3.6	3.8
+/- (%)	29.6	5.5
PER (x)	16.2	15.3
PBV (x)	3.0	2.1
Dividend/Yield (%)	1.2	1.3
EV/Sales (x)	1.1	0.8
EV/EBITDA (x)	10.5	8.5

#### Major shareholders (%)

Promoters	74
FII's	6
BFSI's	5
Public & Others	15

#### Financial highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1Q FY 10	QoQ (%)	1HFY09	1HFY10	YoY (%)	FY09	YoY (%)	FY10E	YoY (%)
Net Sales	4,238	4,528	6.9	3,726	21.5	8,019	8,255	2.9	15,083	12.6	16,311	8.1
EBITDA	406	507	24.8	433	17.0	723	940	29.9	1,273	(6.1)	1,688	32.6
EBITDA Margins (%)	9.6	11.2	-	11.6	(3.7)	9.0	11.4	-	8.4	-	10.3	-
Other Income	24	53	125.0	32	66.5	48	85	76.7	258	66.2	136	(47.3)
Interest	33	11	(67.1)	6	84.5	54	17	(69.6)	153	20.0	127	(17.0)
Depreciation	47	64	36.0	61	4.9	97	125	29.4	204	9.4	226	10.6
PBT	350	485	38.5	398	21.9	620	883	42.3	1,173	(1.9)	1,471	25.3
Extraordinary	-	-	-	-	-	45	-	-	-	-	-	-
Total Tax	59	137	133.6	114	20.1	142	251	76.7	286	7.1	321	12.2
Reported PAT	291	348	19.4	284	22.6	523	632	20.8	887	(4.3)	1,150	29.6
Adjusted PAT	291	348	19.4	284	22.6	478	632	32.1	887	(4.6)	1,150	29.6
Equity Shares (mn)	319	319	-	319	-	319	319	-	319	-	319	-
Adjusted EPS (Rs)	0.91	1.09	19.4	0.89	22.6	1.50	1.98	32.1	2.78	(4.6)	3.61	29.6

## Berger Paints

Maintain Outperformer

Price: Rs 55

BSE Index: 15,896

30 October 2009

### 2QFY10 Result – Volumes lacklustre, margins improve

We expect Berger Paints (BRGR) reported volume growth of 8-10% in 2QFY10. BRGR has a higher proportion of solvent-based paints and has been losing market share to the industry as emulsions are in higher demand. The company seems to have lost some amount of market share. The prices of solvents are down ~20% YoY and hence the blended realisations are down YoY in 2QFY10. The sales grew by 6.9% YoY in 2Q to Rs 4.53 bn, 4.7% lower than our expectations; led by lower than expected growth in volumes. Due to a higher proportion of solvent-based products, BRGR reported a sequential increase of 180 bps in raw material consumption (YoY down 340 bps) as there was a sequential uptick in raw material prices. Hence, operating margins improved 160 bps YoY but declined 40 bps QoQ to 11.2% (expected 10.5%).

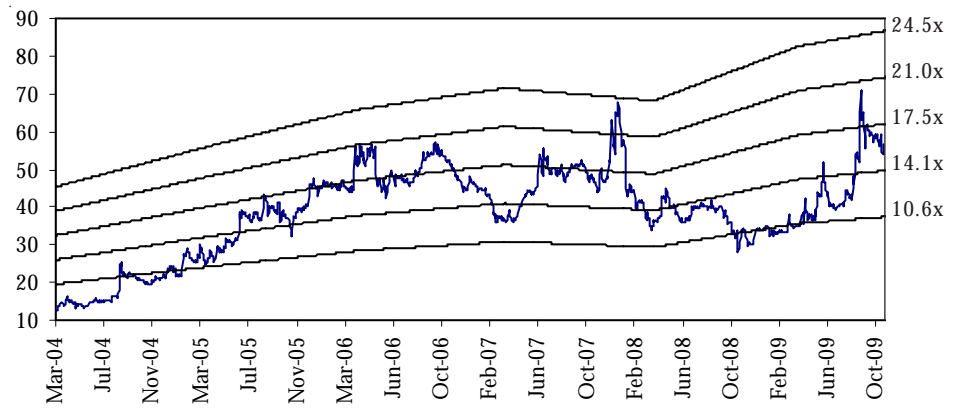
The usage of working capital declined in the quarter resulting in a dip in interest costs in 2QFY10. The tax rate in 2QFY09 was lower at 16.7% as production from the plant in Jammu (has tax benefits) increased but has jumped back to 28.2%. The profits hence were up 19% to Rs 348 mn (expected Rs 343 mn).

### Outlook and valuation

BRGR, similar to the industry leaders is expanding its distribution channel and is focused on increasing the penetration to achieve an improvement in volume growth. We expect BRGR to post volume growth of 10.7% in FY10 and 12.3% in FY11, while margins in 2HFY10 may be slightly under pressure as crude oil price has increased sequentially, so the lag will play out in 3QFY10.

We maintain Outperformer rating on the stock and increase the target price to Rs 60.8 based on 16x FY11E EPS of Rs 3.8.

### PER Band



Source: B&K Research

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>13,397</b>	<b>15,083</b>	<b>16,311</b>	<b>18,277</b>
<i>Growth (%)</i>	<i>15.0</i>	<i>12.6</i>	<i>8.1</i>	<i>12.1</i>
Operating expenses	(12,041)	(13,811)	(14,623)	(16,448)
Operating profit	1,355	1,273	1,688	1,829
<b>EBITDA</b>	<b>1,355</b>	<b>1,273</b>	<b>1,688</b>	<b>1,829</b>
<i>Growth (%)</i>	<i>14.9</i>	<i>(6.1)</i>	<i>32.6</i>	<i>8.4</i>
Depreciation	(186)	(204)	(226)	(247)
Other income	155	258	136	136
<b>EBIT</b>	<b>1,324</b>	<b>1,327</b>	<b>1,598</b>	<b>1,718</b>
Interest paid	(128)	(153)	(127)	(140)
Pre-tax profit (before non-recurring items)	1,196	1,173	1,471	1,578
Non-recurring items	(3)	-	-	-
Tax on non-recurring items	(1)	-	-	-
Pre-tax profit (after non-recurring items)	1,194	1,173	1,471	1,578
Tax (current + deferred)	(267)	(286)	(321)	(366)
<b>Net profit</b>	<b>927</b>	<b>887</b>	<b>1,150</b>	<b>1,213</b>
Adjusted net profit	930	887	1,150	1,213
<i>Growth (%)</i>	<i>8.7</i>	<i>(4.6)</i>	<i>29.6</i>	<i>5.5</i>
<b>Net income</b>	<b>927</b>	<b>887</b>	<b>1,150</b>	<b>1,213</b>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	5,266	5,415	7,199	10,178
Investments	218	263	263	263
Net fixed assets	1,584	1,811	1,880	1,930
Other non-current assets	20	19	-	-
<b>Total assets</b>	<b>7,089</b>	<b>7,508</b>	<b>9,342</b>	<b>12,372</b>
Current liabilities	2,305	2,385	2,285	2,513
Total debt	1,209	781	909	997
Other non-current liabilities	85	91	-	-
<b>Total liabilities</b>	<b>3,599</b>	<b>3,257</b>	<b>3,194</b>	<b>3,511</b>
Share capital	638	737	737	737
Reserves & surplus	2,853	3,515	5,436	8,148
<b>Shareholders' funds</b>	<b>3,490</b>	<b>4,252</b>	<b>6,172</b>	<b>8,885</b>
<b>Total equity &amp; liabilities</b>	<b>7,090</b>	<b>7,509</b>	<b>9,366</b>	<b>12,396</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,194	1,173	1,471	1,578
Depreciation	174	189	224	246
Chg in working capital	(312)	(154)	(531)	(377)
Total tax paid	(270)	(279)	(395)	(366)
<b>Cash flow from oper. (a)</b>	<b>786</b>	<b>930</b>	<b>769</b>	<b>1,082</b>
Capital expenditure	(413)	(416)	(293)	(296)
Chg in investments	(90)	(77)	-	-
Other investing activities	(9)	-	(3)	-
<b>Cash flow from inv. (b)</b>	<b>(512)</b>	<b>(492)</b>	<b>(296)</b>	<b>(296)</b>
<b>Free cash flow (a+b)</b>	<b>274</b>	<b>437</b>	<b>473</b>	<b>786</b>
Equity raised/(repaid)	1	99	-	-
Debt raised/(repaid)	56	(429)	128	88
Dividend (incl. tax)	(149)	(187)	(243)	(269)
<b>Cash flow from fin. (c)</b>	<b>(92)</b>	<b>(516)</b>	<b>(115)</b>	<b>(181)</b>
<b>Net chg in cash (a+b+c)</b>	<b>181</b>	<b>(79)</b>	<b>358</b>	<b>605</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	2.9	2.8	3.6	3.8
EPS growth	8.7	(4.6)	29.6	5.5
EBITDA margin	10.1	8.4	10.3	10.0
EBIT margin	9.9	8.8	9.8	9.4
RoCE	30.2	26.8	26.2	20.3
Net debt/Equity	23.2	10.1	(13.3)	(35.1)

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	20.0	21.0	16.2	15.3
PCE	16.7	17.0	13.5	12.7
Price/Book	5.4	4.4	3.0	2.1
Yield (%)	0.9	1.0	1.2	1.3
EV/Net sales	1.4	1.3	1.1	0.8
EV/EBITDA	14.3	15.0	10.5	8.5

**Du Pont Analysis - ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	6.9	5.9	7.1	6.6
Asset turnover	2.0	2.1	1.9	1.7
Leverage factor	2.1	1.9	1.6	1.4
Return on equity (%)	29.8	22.9	22.1	16.1

**Vishal Biraia**  
**vishal.biraia@bksec.com**  
**+91-22-4031 7123**

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**Analyst Declaration:** I, Vishal Biraia, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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**B & K SECURITIES INDIA PRIVATE LTD.**

**Equity Research Division:** City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.  
**Registered Office:** Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

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