

BERGER PAINTS (INDIA) LTD.

Unprofitable Diwali...

Q2 FY 2007 update

SUMMARY

- Berger Paints India Ltd. (Berger) reported a 22% growth in net sales to Rs 3.2 bn in Q2FY07. This was primarily due to the fact that Diwali was one month earlier this year; leading to higher paint demand in Q2FY07, as against Q3 last year.
- However, higher raw material prices and inability of Bergerto fully pass on the same, led to 200 bps fall in OPM to 10.2%. Consequently, op. profit rose marginally by 3% to Rs 326 mn during the quarter.
- In August, Berger took an average of 3% price increase in solvent based paints and an average of 2% increase in prices of water based paints. This, coupled with fall in crude prices, may lead to a recovery in margins in H2FY07.
- Interest cost spurt by 71% to Rs 19 mn, due to higher interest rates on working capital borrowings. The company's effective tax rate came down sharply, due to higher production from Jammu plant, which enjoys corporate tax exemption. As a result, net profits increased by 11% to Rs 236 mn during the quarter.
- Capital expenditure in the current year will include Rs 150 mn on the Goa plant which suffered from a fire, Rs 150 mn on regular maintenance capex and Rs 350 mn on a new automotive paints plant at Rewari, Haryana. This is likely to be met from internal accruals and additional borrowing.
- *The company results during this quarter were below our expectations, mainly due to margin pressure. At CMP of Rs 52, Berger trades at a P/E of 18x and EV/EBIDTA of 11.4x, discounting its FY08 numbers. This is in line with peers, despite the company having lowest margins in the industry. Hence we maintain a 'HOLD' on the stock.*

COMPANY DETAILS

Auditors	Lovelock & Lewes
Chairman	Mr. Kuldip Singh Dhingra
Regd. Office	Berger House, 129 Park Street, Kolkata - 700017, West Bengal.
Plant	Howrah , Hoogly (WB), Goa, Sikandarabad (UP), Pondicherry, Jammu (J & K)
Website	www.bergerpaints.com

SCRIP DETAILS

Market Capitalisation	Rs 16.6 bn
Book Value per share	Rs 7.2
Equity Shares O/S (F.V. Rs 2)	318.9 mn #
Median Volumes (12 mths)	104,209 (BSE+NSE)
52 Week High/Low	Rs. 95 / 51
BSE Scrip Code	509480
NSE Scrip Code	BERGEPAIN
Bloomberg Code	BRGR@IN
Reuters Code	BRGR.BO

The company issued bonus in ratio of 3 shares for every 5 shares hlded in Oct'06.

SHAREHOLDING PATTERN (%)

Qtr. Ended	Dec-05	Mar-06	Jun-06
Promoters	73.5	73.5	73.5
MFs/FIs	7.4	7.9	8.1
FIIIs/NRIs/OCBs	1.4	1.9	2.1
PCB	2.7	2.3	2.4
Indian Public/ Others	15.0	14.4	13.8
No. of shares outstanding	199	199	199

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (March)		
	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	2,432	2,524	3,197	9,879	11,250	12,850
YoY Gr. (%)	19.4	14.5	22.4	18.8	13.9	14.2
Op. Profits	238	266	326	1,093	1,240	1,415
Op. Marg.(%)	9.8	10.5	10.2	11.1	11.0	11.0
Net Profit #	137	172	236	703	800	920
Eq. Capital	399	399	399	399	638	638

KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBIDT (x)
2006	3.5	34.4	32.3	14.7	1.7	14.9
2007E	2.5	36.9	33.2	20.7	1.5	13.0
2008E	2.9	40.1	34.1	18.0	1.3	11.4

Net Profits are before extra-ordinary items

Nov 10, 2006

Sensex : 13283

Nifty : 3835

CMP : Rs 52

Recomm : HOLD

Berger is the second largest player in the domestic decorative paint industry and also a dominant player in non-automotive industrial segments such as powder coatings and protective coatings. Berger's decorative business has shown strong growth in the last few years due to buoyant economic growth which leads to faster repainting frequency by consumers. Also, new construction and rural markets where Berger is relatively stronger have shown high growth benefiting the company.

Currently 80% of Berger's sales are contributed by decorative paints. Of this half is water based paints having better margins and the rest are solvent based paints. Within this, the exterior paints business is growing at twice the rate of overall business. 75% of decorative sales come from the retail business and 25% from projects (new construction).

Berger is a major player in the mass market with brands like *Rangoli*, *Bison* etc and in exterior paints segment with *Weather Coat*. However, Berger had lower presence in premium decorative paints, a segment where it has lined up a significant budget on brand building exercise using '*Lewis Berger*' brand challenging the dominance of *Asian Paints*' *Royale* and *ICI's Dulux*. The entry of foreign majors like *Jotun Paints* and *Nippon Paints* is unlikely to have any impact on the four existing players including Berger as the new entrants will require couple of years to build their brands and distribution network.

Of the 20% sales from industrial paints, 50% each comes from the automotive paints business and the other industrial paints (powder coatings and protective coatings). Within automotive paints the company is only present in OEM business (not in replacement market) and that too merely in the 2

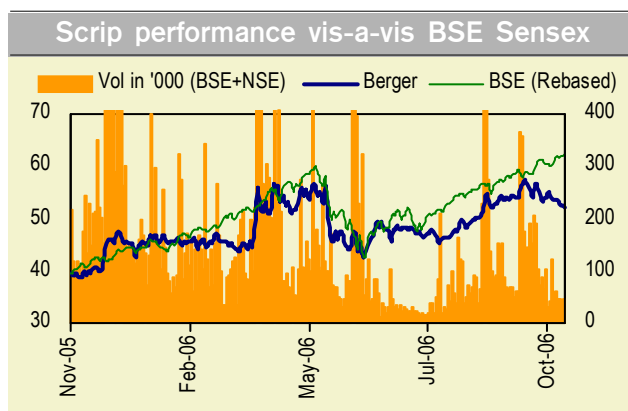
wheeler and commercial vehicle segments, not in the largest segment – passenger car paints. This is because car paints require sophisticated technology and existing relationships with global car manufacturers, neither of which Berger has. Margins in the industrial business are lower than the decorative business. However, the non-automotive industrial paints market, in which Berger is a key player, is likely to benefit from the strong growth expected in the new industrial installations as well as in the white goods segments which are the main users of protective coatings and powder coatings respectively.

Among new initiatives, the company has tied up with *Nippon Bee* of Japan for plastic paints and has set up a new plant in Russia for decorative paints at cost of US\$ 2 mn. The management expects strong growth in Russia due to the economic upswing in that country due to high oil prices. Further, the Berger brand is well known in Russia.

Berger Paints has been a steady performer and we expect that to continue given the secular growth in the paint industry. The company should maintain a 12-14% growth rate in topline going forward.

The Jammu plant has helped the company to supply faster to the north Indian market, while also offering excise and income tax benefits to the company. As a result of these benefits, the company had a strong sales growth and margin improvement in the previous year, FY06.

While margins should sustain at these levels, further rise seems unlikely given stiff competition. We expect Berger to report net sales of Rs 11.3 bn and net earnings of Rs 800 mn in FY07. The stock seems to be fairly priced at current levels and hence we maintain a 'HOLD'.

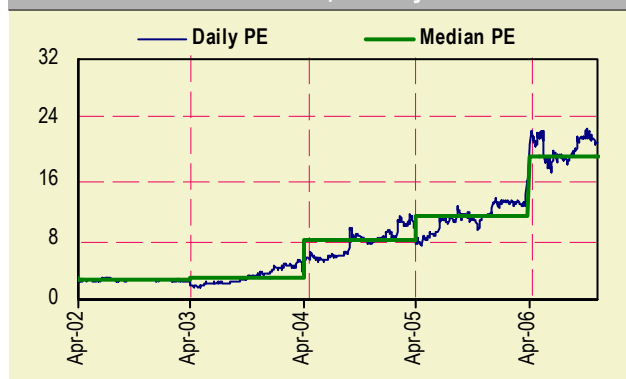


Peer Comparison (FY07)					
Rs mn	Asian P Domestic	Asian P Consol	GNPL	Berger	ICI Ltd.
Sales	26,020	34,750	11,850	11,250	8,360
OPM %	15.5%	13.7%	14.3%	11.0%	12.1%
PAT	2,550	2,602	1,059	800	605
M Cap		66,746	22,185	16,583	14,345
P/E (x)		25.7	20.9	20.7	23.7
EV / Sales (x)		1.9	1.8	1.5	1.1

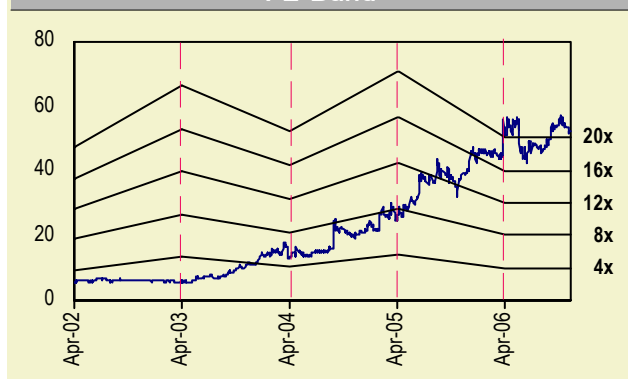
Financial results for the quarter & half year ended Sep 30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Net Sales	3,197	2,613	22.4	5,721	4,817	18.8	9,879
Total Expenditure	2,871	2,297	25.0	5,129	4,259	20.4	8,786
(Inc) / Dec in Stock	(90)	(214)		(416)	(457)		(137)
Cons of Raw Materials	2,176	1,824	29.6	4,084	3,435	23.2	6,407
Staff Cost	142	133	6.9	295	265	11.2	492
Other Exp	644	555	16.1	1,166	1,015	14.8	2,024
Operating Profit	326	316	3.1	592	557	6.2	1,093
Other Income	14	14	5.9	21	22	(4.1)	53
PBIDT	340	330	3.2	613	579	5.8	1,146
Interest	19	11	70.8	31	20	53.2	53
Depreciation	43	44	(2.3)	86	87	(0.6)	174
VRS	1	1		1	3		3
PBT	278	273	1.6	495	469	5.5	916
Provision for Tax	39	58		82	93		196
FBT	3	3		6	9		18
Net Profit	236	212	11.1	408	368	10.9	703
Equity Capital	399	399		399	399		399
Reserves & Surplus	-	-		-	-		1,883
EPS for the period (Rs)	1.2	1.1		2.1	1.8		3.5
Book Value per share (Rs)	-	-		-	-		11.4
OPM (%)	10.2	12.1		10.3	11.6		11.1
NPM (%)	7.4	8.1		7.1	7.6		7.1
Exp (% of Sales)							
Cons of Raw Materials	65.3	61.6		64.1	61.8		63.5
Staff Cost	4.4	5.1		5.2	5.5		5.0
Other Exp	20.1	21.2		20.4	21.1		20.5

Median PE v/s Daily PE



PE Band



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