

November 8, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 108	Rs 109
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,289
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	12	5	8
Rel. to Nifty	1	9	10	28

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	BRGR@IN
Equity Capital (Rs mn)	692
Face Value(Rs)	2
No of shares o/s (mn)	346
52 Week H/L	113/74
Market Cap (Rs bn/USD mn)	37/748
Daily Avg Volume (No of sh)	203570
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	75.6	75.6	75.6
FII/NRI	8.2	8.1	7.6
Institutions	4.0	3.9	4.0
Private Corp	1.9	1.9	2.0
Public	10.3	10.6	10.8

Source: Capitaline

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- **Standalone volume disappoints, but gross margins expand and Ebidta margins intact at 10.4%... swinging positive surprise... APAT at Rs430 mn + 17% yoy, above expectation**
- **Domestic volume growth in the decorative paints segment moderates to 8-10% for the quarter, but market shares retained**
- **Seasonally strong quarter for Bollix, SA... Subsidiaries churns APAT growth of 68% yoy, Even Consol APAT at Rs493 mn up 21.7% yoy, stays ahead of expectations**
- **Retain our FY12E and FY13E EPS of Rs 5.1/share and Rs 6.2/share, respectively. Maintain ACCUMULATE rating with target price of Rs 109/share**

Standalone volume growth disappoints, but positive surprise in Ebidta margins...

Standalone results reflecting the domestic business operations had mixed bag performance. Volume growth at 8-10% was below expectations, but in-line with industry growth and retained market shares. The volume growth moderated from 15% in previous quarters to 8-10% in current quarter. However, gross margins expansions of 220 bps qoq and decline of 10 bps yoy was positive surprise. This was led by 14% price increase in industrial paints and seasonal improvement in product mix in decorative paints. But, Ebidta margins were maintained at 10.4%. Ebidta grew 23% yoy to Rs661 mn and APAT grew 17% yoy to Rs430 mn, in-line with estimates.

Moderation in domestic volume growth

Sales growth of 22% yoy is indicative of 8-10% volume growth in the domestic paints segment. The volume growth has moderated from 15% in Q1FY12 and Q4FY11 to 8-10%, partly attributed to seasonality in paints business. We retain our view that demand velocity for paints would be impacted and paints would register growth of 1.8X GDP in FY12E and FY13E. We expect Berger Paints to grow at the industry growth in future and post 15% volume growth in FY12E and FY13E.

Seasonally strong quarter for Polish subsidiary – Revenue growth of 20.8% yoy

Q2 and Q3 are seasonally strong quarter for the Polish subsidiary, Bollix S.A, which consolidates performance with a lag of one quarter... Though, subsidiary reported strong revenue growth at 20.8% yoy to Rs879 mn, Ebidta margins decline 490 bps to 12.8% resulting in Ebidta decline of 13.9% yoy to Rs112 mn. However, lower tax outgo resulted in APAT growth of 68% yoy to Rs63 mn.

Financial Snapshot (Consolidated)

	Rs Mn									
YE-	Net	EBITDA		EPS		RoE	P/E	EV/	P/BV	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(x)	EBITDA (x)	(x)	
FY10	18,913	1,991	10.5	1,204	3.5	33.9	24.7	29.3	17.0	7.6
FY11	23,281	2,373	10.2	1,501	4.3	24.7	23.3	23.5	13.7	6.3
FY12E	28,955	2,931	10.1	1,750	5.1	16.6	23.3	20.1	11.6	5.2
FY13E	33,154	3,558	10.7	2,155	6.2	23.1	24.3	16.4	9.7	4.2

Quarterly Results (Consolidated)

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Growth	QoQ Growth	H1FY12	H1FY11	YoY Growth
Net Sales	5,899	6,192	5,871	6,931	7,206	22.1	4.0	14,137	11,219	26.0
Expenditure	5230.2	5,519	5,362	6,323	6,433	23.0	1.7	12,755	10,006	27.5
Material Cost	3,695	3,936	3,683	4,523	4,519	22.3	(0.1)	9,042	7,067	27.9
% of Sales	62.6	63.6	62.7	65.3	62.7	10 bps	-250 bps	64.0	63.0	100 bps
Employee Expenses	347	359	408	405	424	22.0	4.7	829	681	21.7
of Sales	5.9	5.8	6.9	5.8	5.9	0 bps	0 bps	5.9	6.1	-20 bps
Other Expenses	1,188	1,224	1,272	1,395	1,490	25.4	6.8	2,885	2,258	27.8
of Sales	20.1	19.8	21.7	20.1	20.7	50 bps	50 bps	20.4	20.1	30 bps
EBIDTA	669	673	508	609	773	15.6	27.0	1,382	1,213	13.9
Depreciation	97.4	105	101	109	116	19.1	6.9	225	196	14.7
EBIT	611	599	441	552	699	14.4	26.7	1,251	1,117	12.0
Other Income	63.0	101	167	104	87	38.0	(16.8)	191	138	39.0
Interest	58	74	67	57	74	27.9	30.1	131	97	35.3
PBT	576.7	595	508	548	670	16.2	22.3	1,218	1,059	15.0
Total Tax	172	157	169	176	177	3.1	0.7	353	335	5.6
Adjusted PAT	405	439	339	372	493	21.7	32.6	864	724	19.4
Reported EPS	1.2	1.3	1.0	1.1	1.4	21.7	32.6	2.5	2.1	19.4

Margins (%)						YoY Bps				YoY Bps
EBIDTA	11.3	10.9	8.7	8.8	10.7	-60	190	9.8	10.8	-100
EBIT	10.4	9.7	7.5	8.0	9.7	-70	170	8.8	10.0	-110
EBT	9.8	9.6	8.6	7.9	9.3	-50	140	8.6	9.4	-80
PAT	6.9	7.1	5.8	5.4	6.8	0	150	6.1	6.5	-30
Effective Tax rate	29.8	26.3	33.3	32.1	26.5	-340	-570	29.0	31.6	-260

Consolidated Ebidta and APAT ahead of expectation, No earnings change

Consol revenue of Rs7.2 bn was below expectations led by moderation in volume growth in standalone operations. However, Ebidta margin decline of 60 bps to 10.7% stood ahead of expectations. Also, lower tax outgo resulted in APAT at Rs493 mn up 21.7 yoy, staying ahead of expectations. With FX impact of 0.7% of revenues, profitability could have been even better. We retain our earnings estimates of Rs5.1/Share and Rs6.2/Share for FY12E and FY13E respectively.

Retain our earnings estimates... Maintain ACCUMULATE

The key drivers for earnings for Berger Paints are (1) gains from increasing scale and size of operations (2) continuous shift in its product portfolio towards premium products (3) retaining market shares and (4) backward integration. This differentiates the earnings trajectory of Berger Paints vis-à-vis peer companies. Hence, we remain optimistic on the company's future growth prospects and believe that the valuation discount between Berger Paints and Asian Paints will narrow in future. Therefore, we maintain our ACCUMULATE rating on the stock with a target price of Rs109/share.

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	18,913	23,281	28,955	33,154
Growth ()	16.5	23.1	24.4	14.5
Expenses	16,922	20,908	26,025	29,597
Growth ()	13.5	23.6	24.5	13.7
Raw Materials	11,931	14,686	18,541	20,908
Of Sales	63.1	63.1	64.0	63.1
Employee Cost	1,246	1,447	1,739	1,979
Of Sales	6.6	6.2	6.0	6.0
Other Expenditure	3,745	4,753	5,742	6,708
Of Sales	19.8	20.4	19.8	20.2
Ebidta	1,991	2,373	2,931	3,558
Growth ()	49.8	19.1	23.5	21.4
Ebidta	10.5	10.2	10.1	10.7
Other Income	238	428	365	393
Interest	152	238	297	297
Depreciation	358	401	473	524
PBT	1,720	2,161	2,525	3,129
Tax	516	660	775	974
PAT (Before EO Item)	1,204	1,501	1,750	2,155
Growth ()	45.3	24.7	16.6	23.1
Net Margin	6.4	6.4	6.0	6.5
E/O Item	0	0	0	0
Reported PAT	1,204	1,501	1,750	2,155

CashFlow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	1,720	2,161	2,525	3,129
Depreciation	358	401	473	524
Non Cash	236	0	0	0
Chg in Working Cap	35	-691	-589	-651
Tax Paid	-502	-705	-775	-974
Operating Cash Flow	1,846	1,167	1,634	2,028
Capex	-622	-1,025	-1,050	-1,050
Free Cash Flow	1,224	142	584	978
Investments	-1,237	795	0	0
Equity Capital	1,255	0	0	0
Loans	-1,002	111	0	0
Dividend	-191	-421	-523	-640
Others	0	225	0	0
Net Change in Cash	49	852	61	337
Opening Cash Position	364	413	1,265	1,326
Closing Cash Position	413	1,265	1,326	1,663

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity Share Capital	692	692	692	692
Reserves	5,273	6,203	7,430	8,944
Networth	5,965	6,895	8,122	9,637
Secured Loans	2,673	3,022	3,022	3,022
Unsecured Loans	0	0	0	0
Loan Funds	2,674	3,022	3,022	3,022
Net Deferred Tax	264	263	263	263
Minority interest	0	0	0	0
Capital Employed	8,903	10,181	11,407	12,922
Gross Block	6,757	7,157	8,007	8,407
Less: Depreciation	2,462	2,816	3,289	3,813
Net Block	4,295	4,341	4,718	4,594
Capital Work In Progress	326	818	1,018	1,668
Goodwill	0	0	0	0
Investments	1,282	526	526	526
Current Assets	6,567	9,015	10,012	11,604
Inventories	3,299	4,437	4,816	5,516
Debtors	2,423	2,753	3,202	3,661
Cash & Bank	413	1,265	1,326	1,663
Loans & Advances	432	560	668	763
Other Current Assets	0	0	0	0
Current Liabilities & Prov	3,566	4,520	4,866	5,469
Net Current Assets	3,001	4,495	5,145	6,134
Miscellaneous Expenditure	-	-	-	-
Capital Deployed	8,903	10,181	11,407	12,922

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability				
Ebidta Mgn	10.7	10.3	10.1	10.7
PAT Mgn	6.4	6.4	6.0	6.5
ROCE	22.6	25.1	26.1	28.2
ROE	24.7	23.3	23.3	24.3
Per Share Data				
EPS	3.5	4.3	5.1	6.2
BVPS	13.4	16.1	19.7	24.0
DPS	1.1	1.3	1.5	1.8
Valuations (X)				
PER	29.3	23.5	20.1	16.4
P/BV	7.6	6.3	5.2	4.2
EV/Sales	2.0	1.6	1.3	1.2
EV/Ebidta	17.0	13.7	11.6	9.7
Dividend Yield ()	1.1	1.3	1.5	1.8
Turnover (X Days)				
Debtor TO Days	44.6	40.6	37.5	37.8
Inventory TO Days	60.2	60.6	58.3	56.9
Gearing Ratio				
Net Debt/Equity (X)	0.4	0.3	0.2	0.1
Total Debt/Equity (X)	0.4	0.4	0.4	0.3

Recommendation History: Berger Paints – BRGR IN

Date	Reports	Reco	CMP	Target
15/09/2011	Consumers Sector Sector Update			
03/08/2011	Berger Paints Q1FY12 Result Update	Accumulate	101	109
27/06/2011	Berger Paints Initiating Coverage	Accumulate	100	109

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/11/2011	Jubilant FoodWorks Q2FY12 Result Update	Accumulate	815	900
31/10/2011	Colgate Palmolive Q2FY12 Result Update	Reduce	1,003	826
31/10/2011	Hindustan Unilever Q2FY12 Result Update	Hold	375	347
24/10/2011	Titan Industries Q2FY12 Result Update	Hold	226	225

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