

Berger Paints India

Sensex: 19,580

CMP: INR 176

Target: INR 165



Paints

Berger Paints India (Berger) registered Q3FY13 consolidated sales growth of 18% to INR 9,203mn. Higher than expected gains in margins resulted in a YoY PAT growth of 40%. EBIDTA margin expanded by 260bps YoY to 12.69%, majorly benefitting from fall in RM costs. Softening in RM cost aided by appreciation in INR would bring in further margin gains ahead. Also, expected improvement in economic growth would drive volume growth in both decorative and industrial paint segments going ahead.

Pent up demand drive sales growth

Berger registered standalone (90% of consolidated business) sales growth of 17% to INR 8,222mn in Q3FY13 on the back of estimated ~8% volume growth. The sales growth was backed by pent-up demand from previous quarter due to late rains. Although, the company witnessed good growth in decorative segment (~80% of standalone), industrial business registered sluggish growth performance on the back of slowdown in automotive sector.

Falling RM cost to bring margin gains

Company's standalone EBIDTA margin jumped by 144bps YoY to 12.19% aided by softening in RM cost, increasing share of premium products and lesser share of lower margin industrial paints segment. Key RM like TiO₂ (~20% of total RM cost) has declined by 20% YTD. Company took partial price hikes in industrial segment in Sep 2012 and is planning to take further hikes in next few months. Going ahead, we expect Berger to witness further improvement in margins on the back of softening in RM cost aided by expected appreciation in INR against USD, increasing share of premium products and price hikes in industrial segment.

Subsidiaries maintained good performance

Combined subsidiaries registered sales growth of 22% in Q3FY13 to INR 981mn. Major contributor Bolix (Poland) maintained its revenues besides witnessing improvement in margins on the back of price increases and favorable Euro exchange rate. Company's other subsidiaries, Berger Nepal and Berger Becker registered strong

sales growth of over 20%. Combined subsidiaries registered expansion in EBIDTA margin by 461bps YoY to 16.92% on the back of increasing economies of scale.

Other key highlights

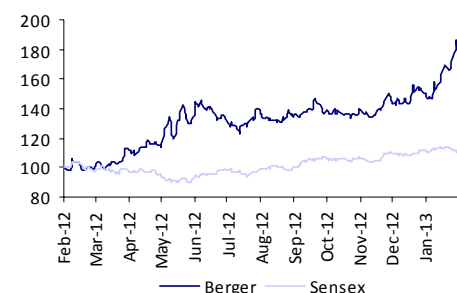
- Company's new business lines which include construction chemicals, wood finishes and textured paints contributed ~INR 100mn to the quarter sales
- Company's Hindupur plant is on schedule and production is expected to commence from May-June of current year
- Company has increased its (active) dealer network by 14-15% in current fiscal to 11,000-11,500

Valuation and Outlook

Berger reported improvement in sales in Q3FY13 backed by pent up demand in decorative segment and better performance by subsidiaries. With expected improvement in economic environment, demand in both decorative and industrial paints segments is expected to pick up. Further, new line of products such as construction chemicals, wood finishes and textured paints would also aid the revenue growth. Softening in RM cost aided by favourable exchange rate and increasing share of premium products would continue to drive margin expansion going ahead. We have built-in higher margins for FY13 and FY14 and upgraded our EPS targets. **We have, therefore, increased our 12months target price to INR 165 (20x FY14E EPS) and continue to recommend HOLD.**

Shareholding %	Dec-12
Promoters	75.54
FII's	9.51
DIIS	3.38
Others	11.57

Relative Price Performance

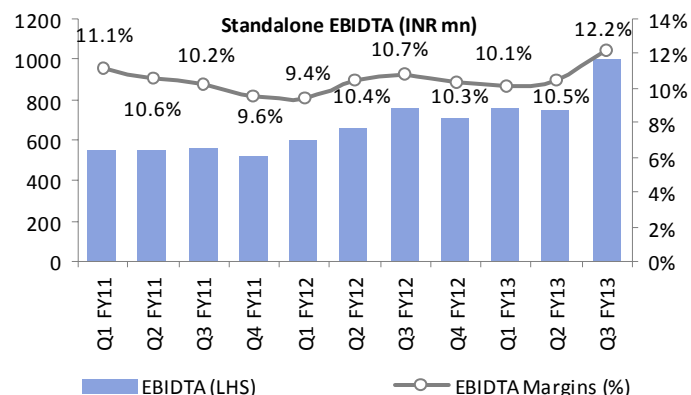
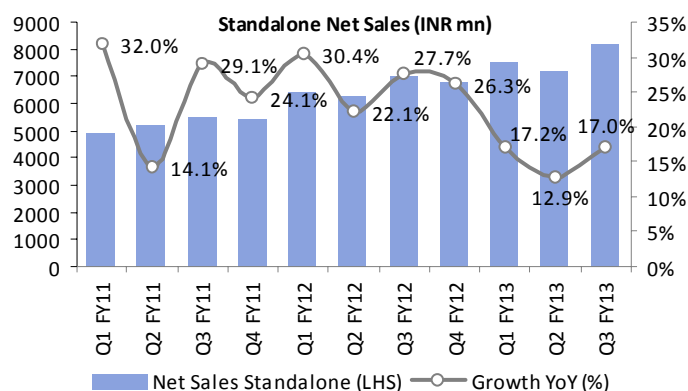


Key Data	
BSE Code	509480
NSE Code	BERGEPAIN
Bloomberg Code	BRGR IN
Reuters Code	BRGR.BO
Shares Outstanding (mn)	346.15
Face Value	2
Mcap (INR bn)	60.9
52 Week H/L	194/100
2W Avg. Qty, NSE (mn)	0.42
Beta 1 Yr. Nifty	0.44

(INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	23,327	29,442	34,117	39,559
Growth (%)	23.05%	26.21%	15.88%	15.95%
EBIDTAM (%)	10.37%	10.12%	11.16%	11.75%
Adj. PAT	1,500	1,858	2,283	2,864
Growth (%)	24.72%	23.88%	22.85%	25.48%
Adj. PATM (%)	6.43%	6.31%	6.69%	7.24%
Adj. EPS (INR)	4.33	5.37	6.59	8.27
P/E (x)	40.61	32.79	26.70	21.28
EV/EBIDTA	25.80	21.06	16.62	13.31
Net Debt/Equity	0.18	0.19	0.21	0.05
RoACE (%)	17.96%	19.17%	21.10%	23.50%
RoANW (%)	18.70%	20.25%	21.66%	22.63%

Quarterly Consolidated Financial

Particulars (INR mn)	Q3FY13	Q3FY12	YoY (%)	Q2FY13	QoQ (%)	9MFY13	9MFY12	YoY (%)
Net Sales	9,171	7,814	17.37%	8,083	13.46%	25,288	21,944	15.24%
Other Operating Income	32	16	100.00%	28	14.29%	90	32	181.25%
Total	9,203	7,830	17.54%	8,111	13.46%	25,378	21,976	15.48%
COGS	5,653	4,953	14.13%	5,034	12.30%	15,815	13,995	13.01%
Gross Profit	3,550	2,877	23.39%	3,077	15.37%	9,563	7,981	19.82%
Gross Profit Margins %	38.57%	36.74%	+295bps	37.94%	+64bps	37.68%	36.32%	+176bps
Employees' Cost	469	409	14.67%	461	1.74%	1,402	1,238	13.28%
as a % of sales	5.10%	5.22%	-13bps	5.68%	-59bps	5.52%	5.63%	-11bps
Other Expenditure	1,913	1,614	18.53%	1,716	11.48%	5,327	4,499	18.41%
as a % of sales	20.79%	20.61%	+47bps	21.16%	-37bps	20.99%	20.47%	+63bps
Total Expenditure	8,035	6,976	15.18%	7,211	11.43%	22,544	19,731	14.26%
EBIDTA	1,168	854	36.77%	900	29.78%	2,834	2,245	26.25%
EBIDTA Margins %	12.69%	10.91%	+260bps	11.10%	+160bps	11.17%	10.21%	+124bps
Depreciation	143	127	12.60%	137	4.38%	411	352	16.93%
EBIT (excl. Other income)	1,025	727	40.99%	763	34.34%	2,423	1,893	27.98%
Other Income	99	74	33.78%	49	102.04%	232	256	-9.41%
EBIT	1,124	801	40.32%	812	38.42%	2,655	2,149	23.52%
Interest	97	74	30.55%	91	6.59%	277	205	34.99%
EBT	1,027	727	41.32%	721	42.44%	2,378	1,944	22.31%
Tax Expense (Total)	259	179	44.69%	187	38.50%	632	532	18.75%
PAT	768	548	40.22%	534	43.82%	1,746	1,412	23.65%
PAT Margins	8.35%	6.99%	+207bps	6.58%	+176bps	6.88%	6.43%	+71bps
EPS	2.22	1.42	56.18%	1.28	73.27%	5.04	3.91	28.95%



Financials Consolidated

Income statement

Year End March (INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	23,327	29,442	34,117	39,559
<i>Growth (%)</i>	<i>23.05%</i>	<i>26.21%</i>	<i>15.88%</i>	<i>15.95%</i>
Cost of Goods Sold	14,686	18,792	21,239	24,488
Gross Profit	8,641	10,650	12,878	15,071
Employee Cost	1,447	1,640	1,882	2,172
Other Oprtg. Expenses	4,775	6,032	7,190	8,249
EBIDTA	2,419	2,979	3,806	4,650
<i>EBIDTA Margin (%)</i>	<i>10.37%</i>	<i>10.12%</i>	<i>11.16%</i>	<i>11.75%</i>
Dep./Amortization	401	473	559	643
EBIT	2,017	2,506	3,247	4,007
Interest Expense	238	249	372	286
Other Income	382	345	327	313
EBT	2,161	2,602	3,202	4,034
Tax Expenses	660	744	920	1,170
PAT	1,501	1,858	2,283	2,864
Adjustment to PAT	(1)	-	-	-
APAT	1,500	1,858	2,283	2,864
<i>Growth (%)</i>	<i>24.72%</i>	<i>23.88%</i>	<i>22.85%</i>	<i>25.48%</i>
<i>APAT Margin (%)</i>	<i>6.43%</i>	<i>6.31%</i>	<i>6.69%</i>	<i>7.24%</i>

Key Ratios

Year End March	FY11	FY12	FY13E	FY14E
Per Share Data (INR)				
Reported EPS	4.34	5.37	6.59	8.27
Adj. EPS	4.33	5.37	6.59	8.27
<i>Growth (%)</i>	<i>24.72%</i>	<i>23.85%</i>	<i>22.80%</i>	<i>25.48%</i>
DPS	1.30	1.40	1.75	2.20
BVPS	19.92	22.87	26.69	31.56
Return Ratios (%)				
RoACE	17.96%	19.17%	21.10%	23.50%
RoANW	18.70%	20.25%	21.66%	22.63%
RoIC	25.14%	26.95%	28.84%	30.99%
Liquidity Ratios				
Net Debt/Equity	0.18	0.19	0.21	0.05
Interest Coverage Ratio	12.35	10.09	11.44	9.61
Current Ratio	1.84	1.99	1.92	1.95
Efficiency Ratios				
Asset Turnover Ratio	1.72	1.81	1.80	1.89
Inventory Days	96	97	103	99
Debtor Days	40	39	42	42
Payable Days	88	93	99	98
Valuation Ratios				
P/E (x)	40.61	32.79	26.70	21.28
P/BV (x)	8.83	7.70	6.59	5.58
Dividend Yield	0.74%	0.80%	0.99%	1.25%
Dividend Payout	29.97%	26.08%	26.55%	26.60%
EV/EBIDTA (x)	25.80	21.06	16.62	13.31

Balance Sheet

Year End March (INR mn)	FY11	FY12	FY13E	FY14E
Source of Funds				
Share Capital	692	692	693	693
Reserves and Surplus	6,194	7,223	8,550	10,235
Total Networth	6,895	7,915	9,243	10,928
Total Debt	3,022	3,410	3,581	2,351
Deferred Tax Liability	263	312	367	437
Total	10,181	11,637	13,191	13,715

Application of Funds

Net Block	4,341	4,862	5,667	6,402
CWIP	818	966	928	550
Investments	526	99	99	99
Current Assets	9,015	11,941	13,351	14,834
Current Liabilities & Provision	4,520	6,231	6,853	8,169
Net Current Assets	4,495	5,710	6,498	6,665
Total	10,181	11,637	13,191	13,715

Cash Flow

Year End March (INR mn)	FY11	FY12	FY13E	FY14E
EBT	2,161	2,602	3,202	4,034
Less: OI/Exceptionals	382	345	327	313
Add: Depreciation	401	473	559	643
Add: Interest Paid	238	249	372	286
Taxes Paid	(653)	(696)	(865)	(1,100)
Change in Working Capital	(722)	(699)	(1,235)	(109)
Others	231	85	194	176
CFs from Operations (a)	1,274	1,669	1,901	3,617
Capital Expenditure	(893)	(1,142)	(1,325)	(1,000)
Change in Investment	755	427	-	-
Others	26	33	29	31
CFs from Investments (b)	(111)	(682)	(1,296)	(969)
Change in Equity	9	-	-	-
Debt Raised/(Repaid)	348	388	171	(1,230)
Div. paid (incl. tax)	(524)	(567)	(709)	(891)
Interest Paid	(238)	(249)	(372)	(286)
CFs from Financing (c)	(404)	(428)	(911)	(2,407)
Net Change in Cash (a+b+c)	852	559	(305)	241
Opening Cash	413	1,265	1,824	1,519
Closing Cash	1,265	1,824	1,519	1,759

 Sharad Avasthi Dy Head - Equity Research sharad.avasthi@spagroupindia.com Tel.: +91-33-4011 4800 Ext.832

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| 1. Analyst ownership of the stock | - No |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

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SPA Securities Limited : SPA House, Nyay Sagar, Near Gurunanak Hospital, Bandra (E), Mumbai - 400051, Tel. No. : +91-022-4289 5600

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