


**Q1FY13 Result Update**
**CMP: Rs. 143.25**
**Aug 03, 2012**

Scrip ID	Industry	CMP	Recommended Action
BERPAIEQNR	Paints	Rs. 143.25	Exit between CMP of Rs. 143.25 & Rs. 149.6; Re-enter on declines to Rs. 122–Rs. 126

In our techno-funda report dated May 23<sup>rd</sup>, 2012, we had recommended buying Berger Paints at the then market price of Rs. 131.80 and averaging on dips to the Rs. 116-122 band for sequential targets of Rs. 143 and Rs. 156. The stock achieved our first target of Rs. 143 on May 25<sup>th</sup>, 2012. The stock hit a high of Rs. 153.30 on June 14<sup>th</sup>, 2012, and a low of Rs. 124.55 on July 19<sup>th</sup>, 2012. Currently the stock is trading at Rs. 143.25.

BPIL recently declared its Q1FY13 results and reported consolidated net sales of Rs. 803.4 cr. - up 15.9% YoY and up 8.3% QoQ. The Operating Profit for the quarter was Rs. 85.0 cr in Q1FY13 vis-à-vis Rs. 71.3 cr in Q1FY12 and Rs. 82.3 cr in Q4FY12. OPM for the quarter was 9.5%, 40 bps up YoY and 30 bps down QoQ. The rise in OPM YoY can be attributed to a drop in raw material expense (as a % of net sales) YoY. Staff cost and other expense was up marginally (as a % of sales) QoQ. The Net Profit for the quarter was reported at Rs. 44.4 cr vis-à-vis Rs. 37.2 cr in Q1FY13 and Rs. 44.6 cr in Q4FY12. Interest expense skyrocketed 56.1% YoY and 102.3% QoQ to Rs. 8.9 cr. Depreciation expense rose 21.3% YoY and 8.3% QoQ. Tax rate for the quarter was lower at 29.5% vis-à-vis 32.1% in Q1FY12 and 32.2% in Q4FY12.

BPIL's Q1FY13 results were slightly below our expectations especially at the profit levels however, not disappointing. The remaining 3 quarters are better for the paint industry and hence BPIL could make up in the rest of the year.

**Quarterly Financials:**

Particulars (Rs. Cr)	Q1FY13	Q1FY12	%YoY	Q4FY12	% QoQ	Q3FY12	Q2FY12
Net Sales	803.4	693.1	15.9%	741.8	8.3%	781.3	719.9
Other Operating Income	3.0	2.2	36.4%	4.8	-37.5%	2.0	0.7
Other Income	8.4	8.2	2.4%	8.9	-5.6%	6.7	8.7
Total Income	814.8	703.5	15.8%	755.5	7.8%	790.0	729.2
Operating Expense	729.8	632.2	15.4%	673.2	8.4%	697.3	643.3
<b>Operating Profit</b>	<b>85.0</b>	<b>71.3</b>	<b>19.2%</b>	<b>82.3</b>	<b>3.3%</b>	<b>92.8</b>	<b>86.0</b>
OPM (%)	9.5%	9.1%		9.8%		11.0%	10.7%
Interest	8.9	5.7	56.1%	4.4	102.3%	13.1	7.4
Depreciation	13.1	10.8	21.3%	12.1	8.3%	12.6	11.6
<b>PBT</b>	<b>63.0</b>	<b>54.8</b>	<b>15.0%</b>	<b>65.8</b>	<b>-4.3%</b>	<b>67.1</b>	<b>67.0</b>
Tax	18.6	17.6	5.7%	21.2	-12.3%	17.9	17.7
<b>PAT</b>	<b>44.4</b>	<b>37.2</b>	<b>19.4%</b>	<b>44.6</b>	<b>-0.4%</b>	<b>49.2</b>	<b>49.3</b>
NPM (%)	5.5%	5.4%		6.0%		6.3%	6.8%
<b>EPS</b>	<b>1.3</b>	<b>1.1</b>	<b>19.4%</b>	<b>1.3</b>	<b>-0.4%</b>	<b>1.4</b>	<b>1.4</b>
<b>P/E (Annualized)</b>	<b>27.9</b>	<b>33.3</b>		<b>27.8</b>		<b>25.2</b>	<b>25.2</b>

(Source: HDFC Sec Research, Company Reports)

**Some key highlights from the quarter:**

- BPIL reported consolidated net sales of Rs. 803.4 cr in Q1FY13, 15.9% up YoY and 8.3% up QoQ. Sales increased as demand remained good and realizations were high. Sales have remained good despite a slowdown in industrial production and GDP. In FY12, BPIL had introduced a bouquet of new products in the decorative segment. These included Weathercoat Allguard – Premium Plus exterior emulsion with water repelling silicon, WeatherCoat Kool 'n' Seal with two way advantage of sealing the terrace cracks and cooling the interiors, and Breathe Easy – the low VOC, low emission emulsion and enamel paints. All these products were received with enthusiasm in the market.
- Operating profit margin for the quarter was 9.5% - up 40 bps YoY and down 30 bps QoQ. Despite raw material prices stabilising after last year's wild swings, Berger is witnessing renewed upward pressure on certain costs. Reliance Industries has hiked prices of zylene and toluene recently. These aromatic hydrocarbons commonly used as solvents by industrial paint makers impact BPIL. This might necessitate a price hike but not in the current quarter, unless prices of other raw materials, particularly mineral turpentine oil (MTO), too, rise. MTO, also known as 'white spirit', is a paraffin-based clear spirit whose supplies and prices are controlled by the government. The government is yet to announce the revised prices. If its price goes up, then BPIL will have to raise prices, as MTO constitutes about 35% of raw material costs of solvent-based decorative paints. Operating profit for the quarter was Rs. 85.0 cr – up 19.2% YoY and 3.3% QoQ.



- Net profit for the quarter stood at Rs. 44.4 cr – up 19.4% YoY but down 0.4% QoQ. Net profit margin was 5.5% - up 10 bps YoY but down 50 bps QoQ. Depreciation increased largely in line with sales however interest expense increased significantly to Rs. 8.9 cr – up 56.1% YoY and 102.3% QoQ. The company may have borrowed funds for working capital as well as to fund part of its expansion.
- BPIL's expansion plans are all on schedule. Work on setting up the modern and automated water based paint plant at Hindupur in Andhra Pradesh is in full swing. The first phase of the Project is expected to be completed by the middle of calendar 2013. The first phase of the plant will give BPIL 160,000 MT water based paint capacity. Once fully completed, the capacity of the plant will be 320,000 MT per annum for water based paints and 100,000 MT for the emulsions per annum used as intermediates in the production of these paints. The Company has also initiated work on a separate unit at Hindupur for its British Paints Division, which will further augment capacity by 30,000 MT of paints and 6,000 MT of resins per annum. Expansion of the water-based plant at Rishra from 18,000 MT per annum to 78,000 MT per annum is expected to be completed by middle of calendar 2012. Work on expansion of the water based paint plant at Goa from 28,000 MT per annum to 78,000 MT per annum is on track and expected to be completed by calendar 2012. Resin manufacturing capacity at Goa is being increased by 6,000 MT per annum. These expansions are expected to increase BPIL's capacity significantly in the next couple years. Total capacity will be increased to 42,000 tonne a month from 24,000 tonne now by calendar 2013, to keep up with the expected rise in demand.
- BPIL has set itself an aggressive target to double FY12 turnover of Rs. 2,948 cr by FY17. To this extent, the company is also looking to expand its distribution channel from the existing 12,000 dealers to 16,000 in the next four years. Aggressive marketing campaigns are being planned and new products are being launched.
- BPIL is keen to acquire new technologies in areas like protective, automotive and wood coatings. The company is also open to an acquisition, if it boosts market share. BPIL is currently ranked 33rd among paint companies globally. The company hopes to enter the top 25 club by 2016 and has hence got very aggressive on expanding its capacities, product ranges and markets.
- BPIL has initiated moves to re-focus on its business in Russia and Poland. The company's former MD and now Additional Director, Subir Bose, will be in charge of the Russian and Polish businesses and a strategic growth plan has been drawn up for both countries. BPIL has taken several long-term strategies to shore up the nascent operations in Russia, including export of different categories of paints from India and the re-structuring of sales network. Setting up a manufacturing unit by Bolix (Polish subsidiary) for external insulation products in Poland is a possibility.

### Concerns:

- Raw material prices remain a concern, as they comprise BPIL's largest operating expense. Raw material prices have stabilized a little but recent increase in prices of certain products raises concern. Revised prices of MTO will play a crucial role in determining profitability of the industry.
- Competition is a critical factor in the paints industry where the 5 largest players have a market share of over 70% of the market. Asian Paints, Kansai Nerolac, Akzo Nobel and Shalimar Paints are the major domestic competitors. Asian Paints is the industry giant and almost single-handedly controls prices, making the other players dependant on it.
- The paints industry is fairly seasonal in nature. Q1 is the dullest quarter while Q3 and Q4 are traditionally the best quarters. BPIL still showed commendable growth in its dullest quarter this year.
- BPIL is exposed to forex risk due to USD denominated raw material prices and foreign operations.
- Subsidiary performance is critical. BPIL's subsidiaries did not perform well in Q1, going into losses of Rs.3.3 cr at the net level after recording PAT of Rs.2.7 cr and Rs.1.8 cr in FY12 and FY11 respectively. The company has taken several steps to increase focus on foreign subsidiaries, which could payoff over a period.

### Conclusion:

Berger Paints India Ltd (BPIL) is India's second largest paint company by revenue. It has a pan India presence and an increasing global footprint. It is the leading non-Auto Industrial paints company and the 2nd largest decorative paints company in India. BPIL is increasing its focus on water-based paints with added emphasis on the premium segment. It is adding major capacities at several plants and total capacity is expected to double by FY13/FY14 from FY11. BPIL has a strong distribution network and a reliable brand name, which entitle it to a ~18% market share by revenue among the top 5 paints players. The company is also increasing its distribution network and product portfolio to increase market share.

BPIL's Q1FY13 results were slightly below our expectations but not disappointing. Sales were good but profits fell, especially at the consolidated level due to underperformance of subsidiaries. We maintain our FY13 estimates.

We remain optimistic of the company's performance in the long run, especially with the added capacities (full impact from FY14 onwards) and renewed concentration on subsidiaries. However in the short term the stock has run up fairly well. We recommend exiting



the stock in the band of CMP of Rs. 143.25 to Rs.149.6 (22x FY13E EPS). Longer-term investors can consider re-entering the stock in the Rs. 122 –126 band (18-18.5x FY13E EPS).

## Financials:

### Annual Profit & Loss Account:

Particulars (Rs. Cr)	FY08	FY09	FY10	FY11	%YoY	FY12 (E)	FY13 (E)
Net Sales	1396.9	1623.9	1891.3	2328.1	23.1%	2992.3	3551.2
Other Operating Income	0.0	0.0	0.0	0.0	#DIV/0!	0.0	0.0
Other Income	15.7	23.3	25.9	42.8	65.2%	38.0	48.0
Total Income	1412.6	1647.2	1917.2	2370.9	23.7%	3030.3	3599.2
Operating Expense	1259.8	1491.0	1692.2	2090.8	23.6%	2691.0	3177.0
% of sales	90.2	91.8	89.5	89.8		89.9	89.5
<b>Operating Profit</b>	<b>152.8</b>	<b>156.2</b>	<b>225.0</b>	<b>280.0</b>	<b>24.4%</b>	<b>339.3</b>	<b>422.2</b>
OPM %	9.8	8.2	10.5	10.2		10.1	10.5
Interest	12.3	18.7	17.2	23.8	38.3%	28.0	33.0
Depreciation	20.1	25.1	35.8	40.1	12.1%	46.0	55.0
<b>PBT</b>	<b>120.4</b>	<b>112.5</b>	<b>172.0</b>	<b>216.1</b>	<b>25.6%</b>	<b>265.3</b>	<b>334.2</b>
Exceptional Items	-0.3	0.0	0.0	0.0	#DIV/0!	0.0	0.0
Net Tax	27.1	29.6	51.6	66.0	27.9%	79.0	99.0
Effective Tax Rate %	22.5	26.4	30.0	30.5		29.8	29.6
<b>PAT</b>	<b>93.0</b>	<b>82.8</b>	<b>120.4</b>	<b>150.1</b>	<b>24.7%</b>	<b>186.3</b>	<b>235.2</b>
Extraordinary Income/Minority Income	0.0	0.0	0.0	0.0	#DIV/0!	0.0	0.0
<b>PAT after Minority</b>	<b>93.0</b>	<b>82.8</b>	<b>120.4</b>	<b>150.1</b>	<b>24.7%</b>	<b>186.3</b>	<b>235.2</b>
NPM %	6.7	5.1	6.4	6.4		6.2	6.6
<b>EPS</b>	<b>2.9</b>	<b>2.6</b>	<b>3.5</b>	<b>4.3</b>	<b>24.7%</b>	<b>5.4</b>	<b>6.8</b>
<b>P/E</b>	<b>49.1</b>	<b>55.1</b>	<b>41.2</b>	<b>33.0</b>		<b>26.6</b>	<b>21.1</b>

(Source: HDFC Sec, Company)

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