

# Berger Paints

**NEUTRAL**

<b>INDUSTRY</b>	<b>FMCG</b>
<b>CMP (as on 5 Feb 2014)</b>	<b>Rs 210</b>
<b>Target Price</b>	<b>Rs 225</b>
Nifty	6,022
Sensex	20,261
<b>KEY STOCK DATA</b>	
Bloomberg/Reuters	BRGR IN/BRGR.BO
No. of Shares (mn)	346
MCap (Rs bn)/(US\$ mn)	73 / 1,161
6m avg traded value (Rs mn)	38
<b>STOCK PERFORMANCE (%)</b>	
<b>52 Week high / low</b>	<b>Rs 256 / 169</b>
	<b>3M 6M 12M</b>
Absolute (%)	(10.8) 1.8 9.2
Relative (%)	(7.4) (3.8) 6.1
<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	74.96
FIs & Local MFs	2.70
FIIIs	11.75
Public & Others	10.59
Source : BSE	

## Domestic volumes disappoint

**Berger Paints' 3QFY14 sales and PAT were below par. Revenue grew ~12% to Rs 10.3bn led by 50% growth in subsidiary business. However, domestic business delivers a meager 4-5% volume growth - a key disappointment. EBITDA margin expanded 9bps YoY (led by lower COGS) to 12.8%. APAT at Rs 823mn grew 7.1% YoY.**

**Berger's domestic volume growth in 3QFY14 was impacted on account of adverse base (3QFY13: 8%). We remain confident of double digit volume growth in 4QFY14E (likely to benefit from favourable base). In addition, 2.2% price hike (above 4.1% price hike effected in 1HFY14) in Feb 2014 will help protect margins in coming quarters. Berger's plan to reduce inventory days (by ~5 days/yr) and expand margins infuses us with confidence. But valuations are rich. Retain NEUTRAL, with a TP of Rs 225 (23x FY16E).**

### Subsidiaries bolster sales growth

- 3QFY14 consolidated net revenue grew 11.9% YoY to ~Rs 10.3bn. APAT, at Rs 823mn, grew by just 7.1% YoY.

### FINANCIAL SUMMARY

Year to March (Rs mn)	3QFY14	3QFY13	% change	2QFY14	% change	FY13	FY14E	FY15E	FY16E
Net rev.	10,298	9,203	11.9	9,662	6.6	33,464	38,229	44,023	50,833
EBITDA	1,315	1,167	12.7	1,042	26.3	3,712	4,265	4,975	5,849
Net profit	823	768	7.1	627	31.3	2,184	2,454	2,875	3,396
Dilu. EPS (Rs)	2.4	2.2	7.0	1.8	31.3	6.3	7.1	8.3	9.8
Dilu.P/E (x)						33.3	29.6	25.3	21.4
EV/EBITDA (x)						20.4	17.4	14.7	12.1
ROAE (%)						25.1	23.8	23.9	24.1

Source: Company, HDFC sec Inst Research

Standalone revenue grew a disappointing 7.4% YoY. Continued sluggish demand in industrial paints led to a mere 4-5% domestic volume growth. Subsidiary business grew 49.8% YoY led by improved performance in Nepal and JVs (Berger Becker Coatings and BNB Chemicals). Acquisition of Sherwin Williams (Brushworks consolidation) aided growth further.

- Price hike of 2.2% in Feb-14 (above 4.1% price hike in 1HFY14) will help revenues and margins. **We expect 7.6% volume growth in domestic business in FY14E.**

### Price hikes to protect margins

- EBITDA margin expands 9bps YoY to 12.8% due to lower COGS (-92bps). This was partially offset by higher other expenses (+32bps) and staff costs (+51bps).
- Other expenses were higher on account of high media spends, new initiatives in customer support, higher freight costs. Also, higher staff costs can be attributed to commissioning of new plants.

### Maintain NEUTRAL

- Berger is trading at 25.3/21.4x our FY15/FY16E EPS. **Maintain NEUTRAL, with a TP of Rs 225 (23x FY16E).**

**Harsh Mehta**

harsh.mehta@hdfcsec.com

+91-22-6171-7329

**QUARTERLY FINANCIALS**

Year to March (Rs mn)	3QFY14	3QFY13	% change	2QFY14	% change
<b>Net sales and operating income</b>	<b>10,298</b>	<b>9,203</b>	<b>11.9</b>	<b>9,662</b>	<b>6.6</b>
Consum. of raw & packing materials	6,231	5,653	10.2	5,837	6.8
Employees' remuneration	578	469	23.1	571	1.2
Other expenditure	2,174	1,913	13.6	2,213	(1.7)
Total expenditure	8,982	8,035	11.8	8,620	4.2
<b>EBITDA</b>	<b>1,315</b>	<b>1,167</b>	<b>12.7</b>	<b>1,042</b>	<b>26.3</b>
Depreciation	183	143	28.3	165	11.0
EBIT	1,132	1,025	10.5	877	29.1
Other income	83	99	(16.1)	83	0.1
EBIT (incl other income)	1,216	1,124	8.1	960	26.6
Interest	119	97	22.0	123	(43.5)
PBT	1,097	1,027	6.8	837	31.1
Taxes	274	259	6.0	210	30.5
Net profit (before minority interest)	823	768	7.1	627	31.3
<b>Adjusted net profit</b>	<b>823</b>	<b>768</b>	<b>7.1</b>	<b>627</b>	<b>31.3</b>
<b>EPS (INR)</b>	<b>2.4</b>	<b>2.2</b>	<b>7.0</b>	<b>1.8</b>	<b>31.3</b>

**as % of net revenues**

COGS	60.5	61.4	(92)	60.4	10
Staff expenses	5.6	5.1	51	5.9	(30)
Others expenditure	21.1	20.8	32	22.9	(179)
<b>EBITDA</b>	<b>12.8</b>	<b>12.7</b>	<b>9</b>	<b>10.8</b>	<b>199</b>
EBIT	11.0	11.1	(14)	9.1	192
PBT	10.7	11.2	(51)	8.7	199
Net profit	8.0	8.3	(36)	6.5	150
Tax rate	25.0	25.2	(18)	25.1	(11)

Source: Company, HDFC sec Inst Research

**Domestic volume grew by 4-5% YoY**

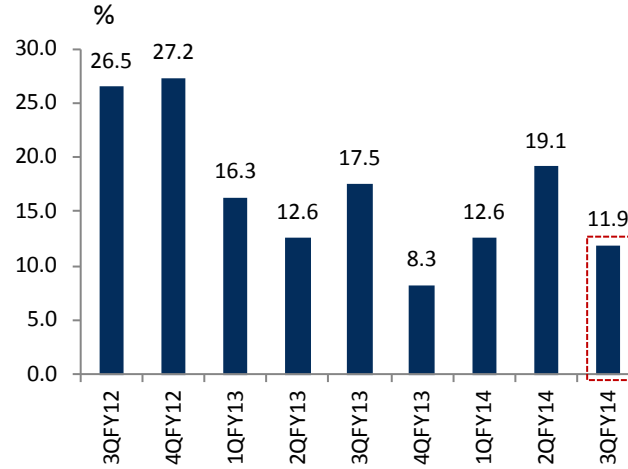
**Depreciation will further move up in forthcoming quarters mainly on account of commissioning of Hindupur plant**

**Price hikes undertaken will offset impact of RM inflation and weaker INR**

**Tax rate will likely rise as tax holidays for two units of the Jammu plant ends in FY14**

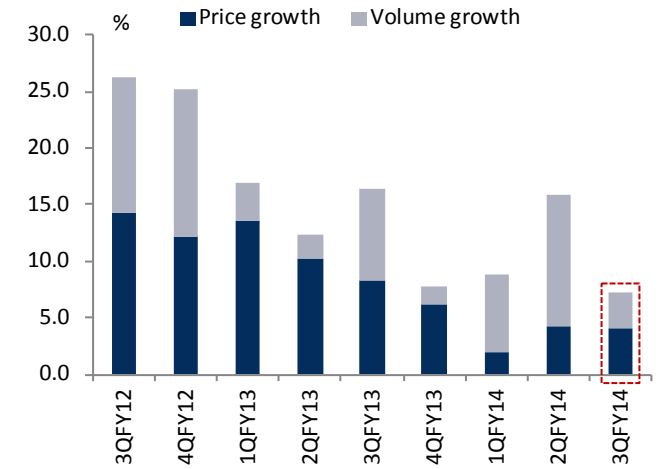
**Continued sluggish demand in industrial paints led to a mere 4-5% domestic volume growth. Decorative segment outpaces industrial segment and company is confident of double digit volume growth in 4QFY14**

**Revenue growth**



Source : Company, HDFC sec Inst Research

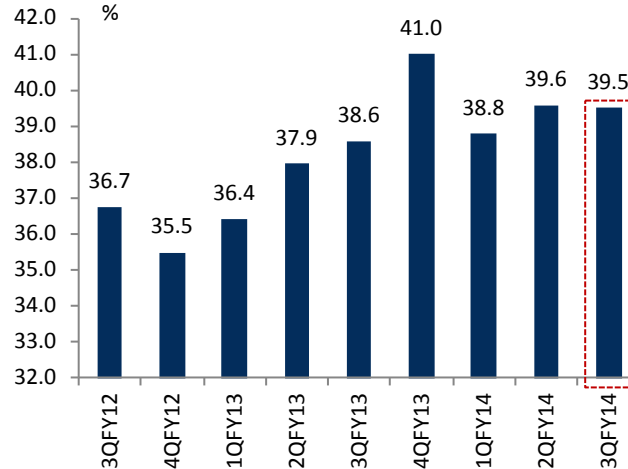
**Domestic business growth trend**



Source : Company, HDFC sec Inst Research

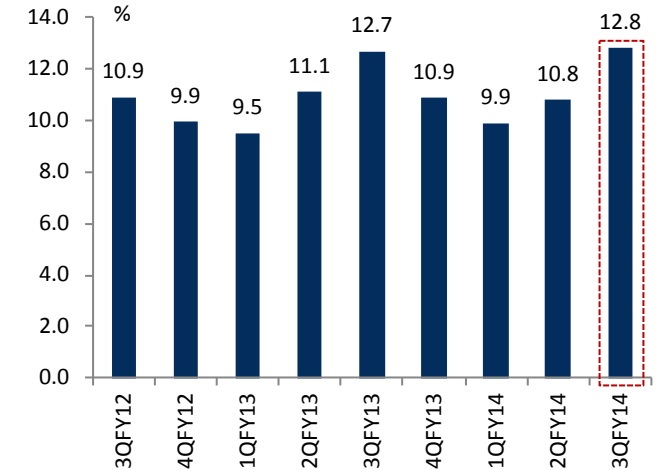
**2.2% price hike (above 4.1% price hike effected in 1HFY14) in Feb 2014 will help protect margins in coming quarters**

**Gross margin**



Source : Company, HDFC sec Inst Research

**EBITDA margin**

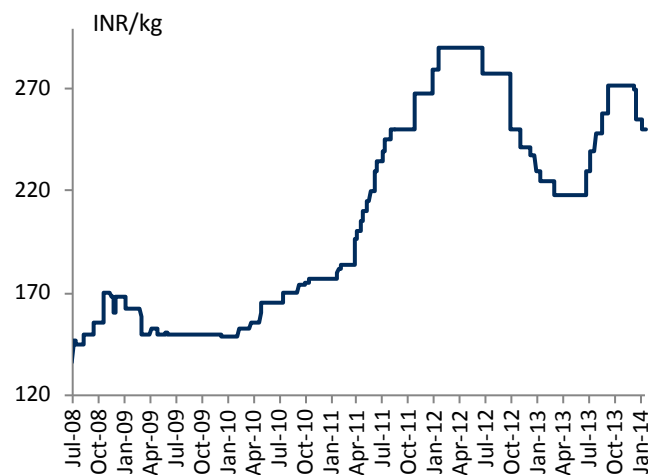


Source : Company, HDFC sec Inst Research

**Company's likely to report 11.2% EBITDA margins for FY14E**

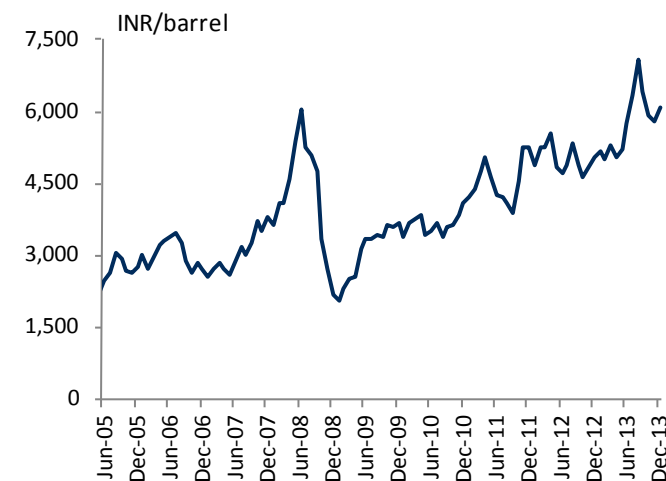
**TiO2 prices, on the back of rupee depreciation, is up 11% YoY**

### TiO2 : Impacted by rupee depreciation



Source : Company, HDFC sec Inst Research

### Crude : Global crude prices on the upmove



Source : Company, HDFC sec Inst Research

### ASSUMPTIONS

Company Assumptions	FY12	FY13	FY14E	FY15E	FY16E
Consol. Revenue growth	25.9	13.5	14.2	15.2	15.5
Domestic volume growth	12.3	7.8	7.6	9.4	9.7
Domestic pricing change	11.3	6.6	4.0	5.0	5.0
COGS as % of sales	63.6	61.5	60.2	60.6	60.9
Ad spends as % of sales	5.1	5.5	5.9	5.7	5.6
EBITDA Margin	10.3	11.1	11.2	11.3	11.5

Source: Company, HDFC sec Inst Research

**PEER VALUATIONS**

Company	CMP (Rs)	Mcap (Rs bn)	Diluted EPS (Rs)			P/E( x)			EV/EBITDA(x)			ROE (%)		
			FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Asian Paints	484	465	11.6	13.0	15.3	41.7	37.2	31.7	26.4	22.5	19.0	36.3	33.6	33.0
<b>Berger Paints</b>	<b>210</b>	<b>73</b>	<b>6.3</b>	<b>7.1</b>	<b>8.3</b>	<b>33.3</b>	<b>29.6</b>	<b>25.3</b>	<b>20.4</b>	<b>17.4</b>	<b>14.7</b>	<b>25.1</b>	<b>23.8</b>	<b>23.9</b>
Colgate	1,321	180	36.5	36.0	40.2	36.2	36.7	32.9	26.6	26.9	23.5	107.4	91.7	87.8
Dabur	173	303	4.4	5.2	6.2	39.5	33.0	28.0	29.6	24.8	20.9	40.0	38.3	36.1
Emami	458	104	14.1	17.4	18.9	32.4	26.3	24.3	29.0	22.4	20.2	43.2	47.5	45.1
Godrej Consumer	723	246	19.6	21.6	26.4	36.9	33.5	27.4	26.7	23.3	18.8	20.2	18.8	20.0
Hindustan Unilever	570	1,233	14.9	16.7	18.5	38.2	34.0	30.8	28.3	25.3	22.0	98.5	106.5	89.1
ITC	319	2,537	9.6	11.0	12.8	33.4	29.0	24.9	21.8	18.8	16.0	36.6	36.7	38.8
Marico	219	141	5.6	7.3	7.8	38.9	30.1	28.1	23.3	20.0	17.5	23.2	26.9	29.8
Nestle*	5,013	483	110.8	119.8	137.8	45.3	41.8	36.4	26.3	22.9	20.0	69.5	56.6	51.9
Pidilite	276	141	8.3	9.4	11.2	33.3	29.4	24.6	23.1	19.1	16.1	28.4	26.6	26.7

Source: Company, HDFC sec Inst Research \* Dec end (FY15 represents CY14)

**INCOME STATEMENT**

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
<b>Net Sales</b>	<b>29,477</b>	<b>33,464</b>	<b>38,229</b>	<b>44,023</b>	<b>50,833</b>
<b>Growth (%)</b>	<b>25.9</b>	<b>13.5</b>	<b>14.2</b>	<b>15.2</b>	<b>15.5</b>
Material Expenses	18,754	20,586	23,013	26,673	30,951
Employee Expenses	1,640	1,871	2,296	2,617	2,989
A&P Expenses	1,496	1,833	2,249	2,529	2,851
Other Operating Expenses	4,552	5,461	6,406	7,230	8,192
<b>EBIDTA</b>	<b>3,034</b>	<b>3,712</b>	<b>4,265</b>	<b>4,975</b>	<b>5,849</b>
<b>EBIDTA (%)</b>	<b>10.3</b>	<b>11.1</b>	<b>11.2</b>	<b>11.3</b>	<b>11.5</b>
<b>EBIDTA Growth (%)</b>	<b>21.2</b>	<b>22.3</b>	<b>14.9</b>	<b>16.6</b>	<b>17.6</b>
Other Income	305	314	334	355	379
Depreciation	472	567	675	790	909
EBIT	2,868	3,459	3,924	4,539	5,319
Interest	324	377	453	438	433
PBT	2,544	3,082	3,471	4,101	4,886
Tax	744	898	1,017	1,226	1,490
Minority Interest	-	-	-	-	-
<b>Core PAT</b>	<b>1,800</b>	<b>2,184</b>	<b>2,454</b>	<b>2,875</b>	<b>3,396</b>
<b>Core PAT Growth (%)</b>	<b>19.9</b>	<b>21.3</b>	<b>12.4</b>	<b>17.1</b>	<b>18.1</b>
EO items (net of tax)	-	-	-	-	-
RPAT	1,800	2,184	2,454	2,875	3,396
<i>RPAT Growth (%)</i>	<i>19.9</i>	<i>21.3</i>	<i>12.4</i>	<i>17.1</i>	<i>18.1</i>
<b>EPS</b>	<b>5.2</b>	<b>6.3</b>	<b>7.1</b>	<b>8.3</b>	<b>9.8</b>
<b>EPS Growth (%)</b>	<b>19.9</b>	<b>21.2</b>	<b>12.4</b>	<b>17.1</b>	<b>18.1</b>

Source: Company, HDFC sec Inst Research

**BALANCE SHEET**

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
<b>SOURCES OF FUNDS</b>					
Share Capital	692	693	693	693	693
Reserves	7,223	8,839	10,432	12,298	14,502
<b>Total Shareholders Funds</b>	<b>7,915</b>	<b>9,532</b>	<b>11,124</b>	<b>12,990</b>	<b>15,194</b>
Minority Interest	-	-	-	-	-
Long Term Debt	1,444	2,152	1,799	1,399	999
Short Term Debt	1,966	3,344	2,698	2,098	1,498
<b>Total Debt</b>	<b>3,410</b>	<b>5,497</b>	<b>4,497</b>	<b>3,497</b>	<b>2,497</b>
Deferred Taxes	312	408	408	408	408
Long Term Provisions	8	30	30	30	30
<b>TOTAL SOURCES OF FUNDS</b>	<b>11,647</b>	<b>15,465</b>	<b>16,058</b>	<b>16,924</b>	<b>18,128</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	5,089	5,989	8,314	8,524	8,365
CWIP	729	1,725	113	63	63
Investments	40	108	108	108	108
LT Loans & Advances	447	545	545	545	545
Inventories	5,552	6,364	6,597	7,356	8,215
Trade Receivables	3,586	4,114	4,346	4,945	5,640
Cash & Equivalents	1,824	2,270	2,584	3,026	4,136
ST Loans & Advances	542	649	649	649	649
Other Current Assets	61	103	103	103	103
<b>Current Assets</b>	<b>11,566</b>	<b>13,500</b>	<b>14,279</b>	<b>16,078</b>	<b>18,742</b>
Trade Payables	5,531	5,514	6,413	7,506	8,806
Other Current Liabilities & Provisions	704	893	893	893	893
<b>Current Liabilities</b>	<b>6,235</b>	<b>6,407</b>	<b>7,306</b>	<b>8,399</b>	<b>9,699</b>
<b>Net current Assets</b>	<b>5,331</b>	<b>7,093</b>	<b>6,973</b>	<b>7,680</b>	<b>9,043</b>
Misc Expenses	10	4.5	5	5	5
<b>TOTAL APPLICATION OF FUNDS</b>	<b>11,647</b>	<b>15,465</b>	<b>16,058</b>	<b>16,924</b>	<b>18,128</b>

Source: Company, HDFC sec Inst Research

**CASH FLOW**

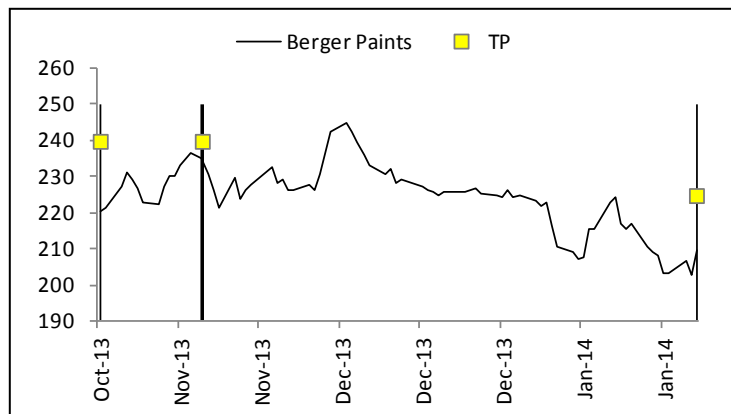
(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Reported PAT	1,800	2,184	2,454	2,875	3,396
Non-operating & EO items	216	223	236	249	263
PAT from Operations	1,584	1,961	2,218	2,626	3,133
Interest, Dep & Others	315	606	1,128	1,228	1,342
Working Capital Change	(355)	(1,584)	435	(264)	(254)
<b>OPERATING CASH FLOW ( a )</b>	<b>1,545</b>	<b>983</b>	<b>3,781</b>	<b>3,590</b>	<b>4,221</b>
Capex	(1,336)	(2,149)	(1,388)	(950)	(750)
Free Cash Flow	208	(1,166)	2,393	2,640	3,471
Non-operating income	216	223	236	249	263
Investments & Others	631	108	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(489)</b>	<b>(1,818)</b>	<b>(1,152)</b>	<b>(701)</b>	<b>(487)</b>
Debt Issuance	196	2,092	(1,000)	(1,000)	(1,000)
Interest	(274)	(327)	(453)	(438)	(433)
Dividend	(406)	(484)	(861)	(1,009)	(1,192)
<b>FINANCING CASH FLOW ( c )</b>	<b>(484)</b>	<b>1,281</b>	<b>(2,315)</b>	<b>(2,447)</b>	<b>(2,625)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>571</b>	<b>445.8</b>	<b>314</b>	<b>442</b>	<b>1,109</b>
Closing Cash	1,824	2,270	2,584	3,026	4,136

Source: Company, HDFC sec Inst Research

**KEY RATIOS**

	FY12	FY13	FY14E	FY15E	FY16E
<b>PROFITABILITY (%)</b>					
GPM	36.4	38.5	39.8	39.4	39.1
EBITDA Margin	10.3	11.1	11.2	11.3	11.5
EBIT Margin	8.7	9.4	9.4	9.5	9.7
APAT Margin	6.1	6.5	6.4	6.5	6.7
RoE	24.3	25.1	23.8	23.9	24.1
Core RoCE	16.9	16.5	16.2	17.9	19.7
RoCE	18.5	18.1	17.6	19.3	21.1
<b>EFFICIENCY</b>					
Tax Rate (%)	29	29	29	30	30
Asset Turnover (x)	2.7	2.5	2.4	2.7	2.9
Inventory (days)	62	65	63	61	59
Debtors (days)	39	42	41	41	40
Payables (days)	58	60	61	62	63
Cash Conversion Cycle (days)	43	47	43	40	36
Debt/EBITDA (x)	1.1	1.5	1.1	0.7	0.4
Net D/E	0.2	0.3	0.2	0.0	(0.1)
Interest Coverage	7.9	8.4	7.9	9.6	11.4
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	5.2	6.3	7.1	8.3	9.8
CEPS (Rs/sh)	6.6	7.9	9.0	10.6	12.4
BV (Rs/sh)	22.9	27.5	32.1	37.5	43.9
DPS (Rs/sh)	1.4	1.8	2.1	2.5	2.9
<b>VALUATION</b>					
P/E	40.3	33.3	29.6	25.3	21.4
P/BV	9.2	7.6	6.5	5.6	4.8
EV/EBITDA	24.4	20.4	17.4	14.7	12.1
OCF/EV (%)	2.1	1.3	5.1	4.9	6.0
FCF/EV (%)	0.3	(1.5)	3.2	3.6	4.9
FCFE/mkt cap (%)	0.3	(1.6)	3.3	3.6	4.8
Dividend Yield (%)	0.7	0.9	1.0	1.2	1.4

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
15-Oct-13	220	NEU	240
6-Nov-13	235	NEU	240
6-Feb-14	210	NEU	225

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel,

Mumbai - 400 013

Board : +91-22-6171 7330

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