

5 March 2018

Berger Paints – BUY

CMP : 242
Target Price : 304
Upside : 25%+
Stop Loss : 215 (closing basis)

Investment Thesis

Recently, the stock price of Berger Paints India Ltd. (Berger Paints) corrected by ~18% from 52-week high of Rs.286 despite reporting good set of numbers in the recent quarters.

Berger Paints is the 2nd largest company in decorative paint segment with market share of 19%, just after Asian paints. Over the last couple of years, it has gained market share by implementing various strategies. It has registered a phenomenal CAGR of 12% in its topline as well as CAGR of 21% in bottomline during FY11-17. Crude oil and its derivatives, which accounts for ~50% of raw material cost, is now at nearly half compared to its long term average and is expected to remain benign, which will certainly help Berger Paints to post better margins in coming years. On the back of buoyant demand from decorative paint industry, strong brand power and increase in average realization due to focus in premier products, Berger Paints is expected to post strong revenue growth going forward. Further, Berger Paints, with its aggressive distribution and branding efforts, will drive higher volume trajectory in the years to come.

Favorable Indian demographics like increasing urbanization, increase in number of nuclear families, increasing disposable incomes will drive the demand for decorative paints in future. Government is also constantly taking initiatives for making housing available for all people of India through big initiatives like 'Housing for all by 2022' along with 'Building Smart city', which will bring huge demands for all building materials including decorative paints. We believe this will be the big boost for the whole paint industry and Berger Paints is in the best place to ripe benefit out of it. Another factor boosting the paint market is the growth in the automotive industry which creates huge demand for industrial paints. The Indian auto industry is one of the largest in the world with an annual production of ~25mn vehicles, growing at a CAGR of over 8%.

Financials

- During the past 5 years, revenue of Berger Paints grew at a CAGR of 9.1% while PAT grew at a CAGR of 21.3% in the same period.

| Consol. (Rs.Mn.) | FY15 | FY16 | FY17 | FY18E | FY19E |
|------------------|--------|--------|--------|--------|--------|
| Revenue | 43,221 | 46,341 | 45,523 | 52,351 | 60,204 |
| EBITDA | 5,107 | 6,554 | 7,186 | 8,263 | 9,503 |
| % growth | 18.4 | 28.3 | 9.6 | 15.0 | 15.0 |
| PAT | 2,647 | 3,698 | 4,737 | 5,447 | 6,275 |
| EPS (INR) | 2.7 | 3.8 | 4.9 | 5.6 | 6.5 |
| P/E (x) | 91.3 | 65.4 | 51.0 | 44.4 | 38.5 |
| RoE (%) | 20.5% | 24.5% | 24.9% | 26.2% | 27.5% |

- Berger Paints has reported 14.0% YoY growth in revenue to Rs.13,386mn led by high growth in the decorative paint segment as well as healthy performance of the industrial segment in Q3FY18.

Stock Data

| | |
|-----------------------|-----------|
| Market Cap (INR MN) | 241,301 |
| Market Cap (\$ MN) | 3,702.0 |
| Shares O/S (in MN) | 971.0 |
| Avg. Volume (3 month) | 382,000 |
| 52-Week Range (Rs.) | 286 / 207 |

Shareholding Pattern

| | |
|-------------------------------|--------|
| Promoters | 74.99% |
| FII's | 5.33% |
| Institutions | 8.94% |
| Others (incl. body corporate) | 10.74% |

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|-------|------|-------|
| Absolute | -1.1% | 1.0% | 6.5% |
| BSE 500 | -5.5% | 6.9% | 20.5% |

Key Ratios

| | |
|---------------|-------|
| Div Yield | 0.7% |
| TTM PE | 52.4x |
| ROE | 24.7% |
| TTM EPS (INR) | 4.7/- |

- Berger Paints' EBITDA for Q3FY18 improved by 21.3% YoY to Rs.2,226mn on account of healthy realizations, superior product mix and operating leverage. As a result, EBITDA margin has also gained by 100bps YoY to 16.6% in Q3FY18.
- Berger Paints' PAT stood at Rs.1,304mn in Q3FY18, a gain of 19.5% YoY as depreciation, interest and taxation remain stable for the company.

Key Business Highlights

- Berger Paints is the third largest paint manufacturer and the second largest decorative paint player in India with a market share of 19%.
- Berger Paints offers a variety of innovative painting solutions to its customers in decorative and industrial segment with its strong distribution network comprising of 150 stock points and more than 25,000 paint retailers.
- Berger Paints has 13 manufacturing facilities located in West Bengal, Uttar Pradesh, Assam, Pondicherry, Goa, and Jammu & Kashmir with a combined capacity of 600,000 tonnes per annum.

Valuation

- In order to cater to increasing demand, Berger Paints has embarked upon greenfield capacity expansion plans. It is setting up an integrated paint plant at Naltoli, with an annual capacity of 24,000 KL of water based paints and 13,200 KL of solvent based paints. In addition, the British Paints division of the company has recently set up a distemper and putty manufacturing facility in Nalbari near Guwahati with a capacity of 1,200 MTPA and 6,000 MTPA, respectively, which has commenced production in FY17. It is also developing warehouses in Howrah, Rishra, Jammu, Goa and Vallabh Vidya Nagar plants. We believe, Berger Paints' capacity expansion will augurs well as it will benefit from incremental demand in future.
- Berger Paints' product portfolio was focused lower priced products in the past. In order to improve contribution from premium products, which has a strong demand in urban markets, Berger Paints has shifted its focused on new products development along with improving brand visibility by higher ad spends. It is also increasing its dealership network in rural area to increase distribution reach. We believe, this will help Berger Paints to garner market share in higher margin premium products and improve margins.
- Recently, Berger Paints has foray into the home decor business vertical and will launch a basket of products other than paints. Berger Paints plans to launch products such as sealants, adhesives, doors, windows, wooden floor and laminates, tiles, decorative items made of brass and copper, industrial flooring and various items made of wood, board, aluminums and other materials. The company will be leveraging its existing manufacturing facilities and the marketing network to take this new venture forward.
- With 2nd largest company in decorative paint segment, favorable Indian demographics and government's initiatives, capacity expansion plans, focus shifted to premium products and foray into the home decor business, we value Berger Paints at 47.00x FY19E EPS of Rs.6.50 to arrive at target price of Rs.304.00, an upside of ~22%.

Risk & Concern

- Advertising cost is very high in paint industries as paints are recognized from its brands. Any further increase in advertising and distribution may weigh on margins of Berger Paints.
- Any negative volatility in Indian currency and crude oil prices may likely to have a dent on the overall margin of the company.
- Any abnormal monsoon as it may affect the rural demand and hence in turn will affect the demand for the paints.

Graphs & Charts

Figure 1: Net Sales Trend

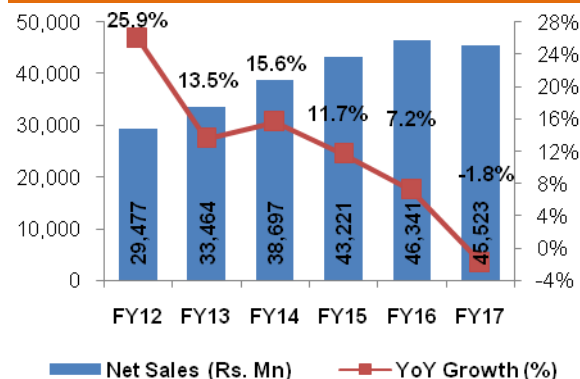


Figure 2: EBITDA & EBITDA Margin Trend

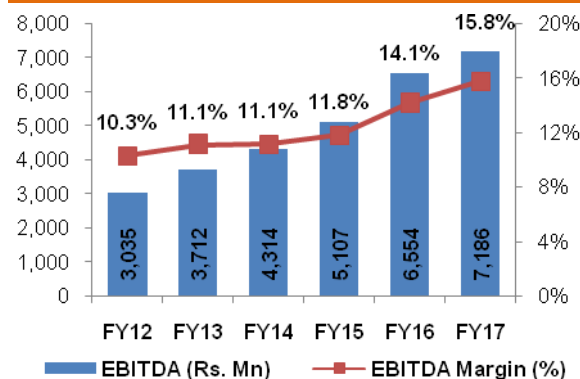


Figure 3: PAT Trend

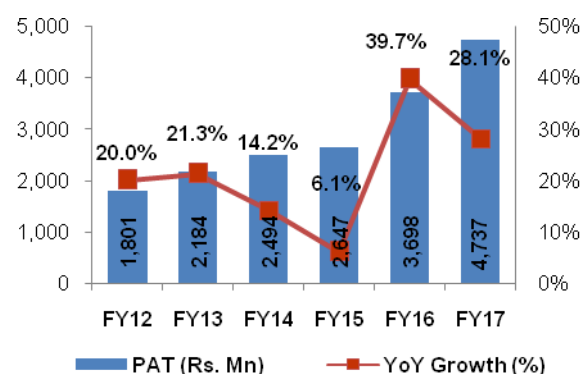
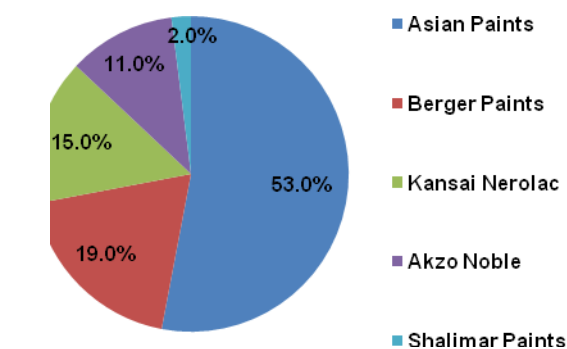


Figure 4: Market Share of Paint Companies



Disclosure: This document has been prepared by the Research Desk of M/s Bonanza Portfolio Ltd. and is meant for use of the recipient only and is not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to support any security. The information contained herein is obtained and collated from sources believed reliable that reflects the unbiased view and we do not represent it as accurate or complete and it should not be relied upon as such. The opinion expressed or estimates made are as per the best judgment as applicable at that point of time and are subject to change without any notice. Bonanza Portfolio Ltd. along with its associated companies/ officers/employees may or may not, have positions in, or support and sell securities referred to herein.

Corporate Office :Plot No. M-2, Cama Industrial Estate, Walbhat Road, Behind 'The Hub' Goregaon (E), Mumbai - 400 063.

Tel.: 022-67605500 / 600

Head Office :2/2 A, First Floor, Lakshmi Insurance Building, Asaf Ali Road, New Delhi - 110 002. Tel.: 011-30181290 / 94

Web: www.bonanzaonline.com

