

June 27, 2014

BSE Code: 509480 NSE Code: BERGEPAIN Reuters Code: BRGR.NS Bloomberg Code: BRGR:IN

Headquartered in Kolkata, Berger paints Ltd (Berger), the third largest paint manufacturer and the second largest decorative paint player in India, was founded in December 1923. The company operates mainly through four business segments, namely, decorative coatings, protective coatings, automotive coatings, industrial and powder coatings. With manufacturing facilities in West Bengal, Uttar Pradesh, Pondicherry, Goa, and Jammu & Kashmir, the company has a countrywide distribution network of 16,500+ dealers serviced through 135 stock points and 10 production units. Internationally, Berger has expanded its footprints in four countries, namely, Russia, Poland, Nepal and Bangladesh.

Investor's Rationale

Witnessed robust performance in FY'14 - Berger posted a healthy consolidated top-line growth of ~16% to ₹38,697.2 mn in FY'14 as compared to the corresponding period previous year led by better volume growth and price hikes initiative undertaken by the company in the recent past. In line with decent topline growth, the company's EBITDA also grew at a healthy pace of 16% YoY to ₹4,313.7 mn. The net profit of the company grew by 14% YoY to ₹2,493.9 mn owing to the fall in the effective tax rate to 28.7% compared to 29.1% coupled with a 14% rise in the other income to ₹359.5 mn.

Recent price hike to result in better performance in Q1FY'15 - Berger Paints India is the second largest player in the organized decorative paint segment and the third largest player in the industrial paint segment. We expect Berger to maintain its lead in the organized decorative paint segment on the back of the expected pickup in sales in India. Further, the recent price hike undertaken by the company to offset the rise in input costs, will lead to strong revenue growth. We expect the company's revenue to grow at a CAGR of ~16% during FY14-FY16E.

Capacity expansion and product innovation to boost growth - Berger has lined aggressive capacity expansion plans (both its Brown and Greenfield projects located across India) in order to meet the surging demand of its brands. The company is eyeing to double its capacity to 1.6-lakh tonnes per annum in the next two years, and to reach 3,20,000 MTPA in the next four-five years for water based paints and 1,00,000 MTPA for emulsions, used as intermediates in the production of these paints. Further, the company's equally focussed towards product innovation by introducing new and value-added products will add on to the revenue base.

Well focussed on innovations - Berger is eyeing on developing its premium emulsion category and is also ramping up its decorative portfolio gradually by introducing new products and revamping its existing products. Apart from this, Berger is also expanding its industrial and infrastructure portfolio with a variety of value-added products that would give a fillip to the industrial business and will significantly increase Berger's presence in key markets.

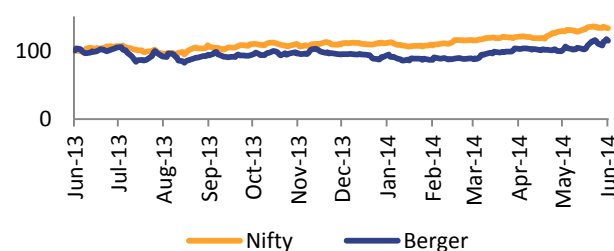
Market Data

Rating	BUY
CMP (₹)	283.7
Target (₹)	335
Potential Upside	~18.1%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	289.9/185.0
Adj. all time High (₹)	272.7
Decline from 52WH (%)	2.1
Rise from 52WL (%)	53.4
Beta	0.2
Mkt. Cap (₹bn)	98.3
Enterprise Value (₹bn)	101.7

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	33.5	38.7	44.9	51.8
EBITDA (₹bn)	3.7	4.3	5.0	5.8
Net Profit (₹bn)	2.2	2.5	2.9	3.3
Adj EPS (₹)	6.3	7.2	8.3	9.6
P/E (x)	45.0	39.4	34.0	29.7
P/BV (x)	10.3	8.8	7.5	6.4
EV/EBITDA (x)	27.3	23.6	20.2	17.4
ROCE (%)	19.0	19.7	20.9	21.7
ROE (%)	22.9	22.3	22.1	21.6

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Mar'14	Dec'13	Diff.
Promoters	74.96	74.96	-
FII	11.72	11.75	(0.03)
DII	2.74	2.70	0.04
Others	10.58	10.59	(0.01)

Berger operates through 4 distinct business verticals, namely, decorative coatings, protective coatings, automotive coatings, industrial and powder coatings.

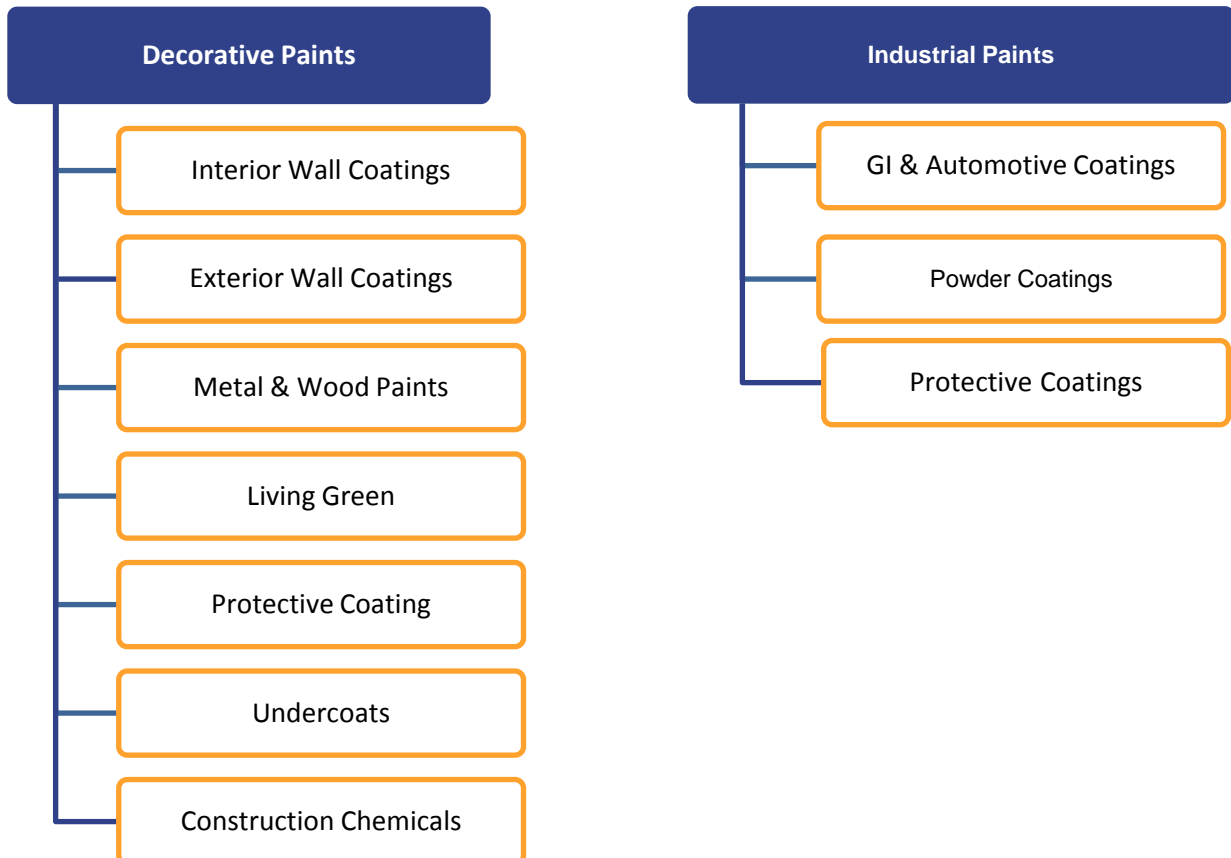
Berger currently has 11 manufacturing units in Bengal, Goa, Pondicherry, Andhra Pradesh, Gujarat, Jammu and Delhi.

Berger Paints – India’s third largest manufacturer of paints

Berger Paints India Ltd is India’s second largest decorative paint player headquartered in Kolkata. The company operates through 4 distinct business verticals namely decorative coatings, protective coatings, automotive coatings, industrial and powder coatings. Berger derives 80% of the revenue from the decorative paints segment and the rest is industrial. The company’s Industrial Business comprises General Industrial, Automotive, Protective Coatings and Powder Coatings. The company’s premium brands viz., Breathe Easy, Silk and Weathercoat Allguard continued to perform well in all the markets. Its flagship brands also include Luxol Hi Gloss enamel paints and Illusions, range of designer wear for the walls. The company is expecting the revenue from the premium decorative brands — Silk, Easy Clean and Weather Coat are likely to cross ₹1 bn mark each in this fiscal. Berger currently has 11 manufacturing units in Bengal, Goa, Pondicherry, Andhra Pradesh, Gujarat, Jammu and Delhi. The company is having a countrywide distribution network of 16,500+ dealers serviced through 135 stock points and 10 production units. The company is now making in-roads into the luxury brands in a big way. Apart from this, the company is also focusing towards improved formulations as well as looks and packaging of all its products.

The company is also having international presence in four countries — Russia, Poland, Nepal and Bangladesh. The company has business venture or technology transfer tie-ups with various renowned paint companies in the world like Nippon Bee of Japan and Becker Acroma Spa of Italy.

Business Overview



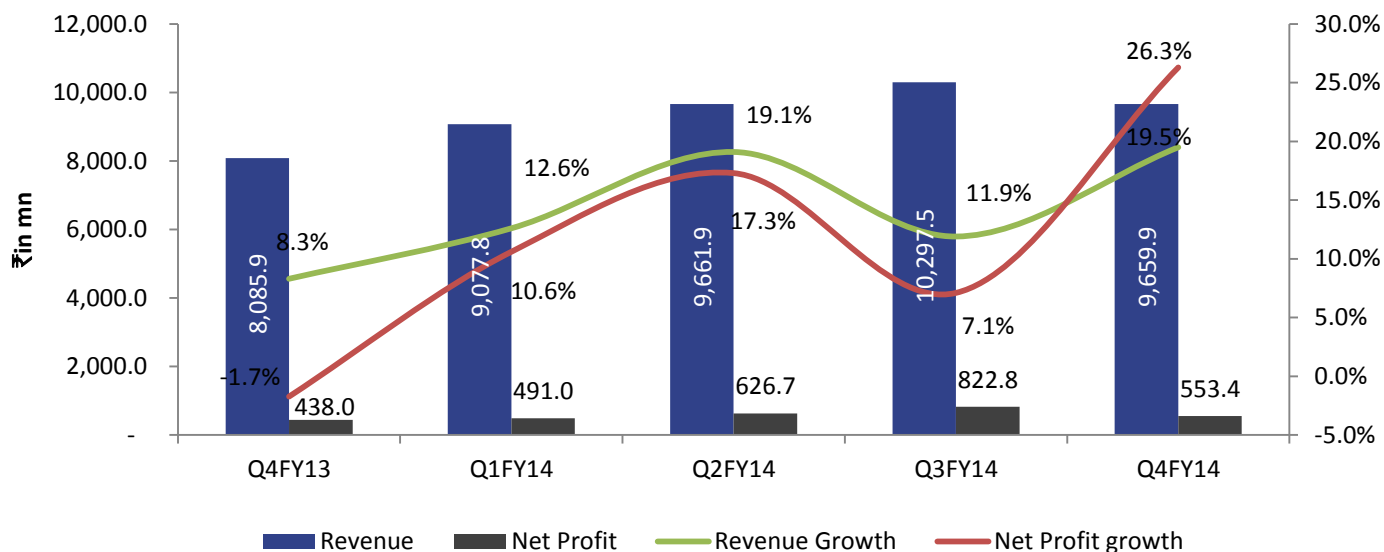
Consolidated revenue grew by 19.5% YoY to ₹9,659.9 mn led by ~11% volume growth in the domestic business.

EBITDA margin improved 11bps YoY to 11% mainly due to lower cost of material consumed followed by employee and other expenses.

Posted healthy numbers in Q4FY'14 and FY'14

Berger reported resilient consolidated revenue growth of 19.5% YoY at ₹9,659.9 mn in Q4FY'14 mainly driven by ~11% volume growth domestically. In line with strong revenue growth, the EBITDA of the company also grew robustly by ~21% at ₹1,059.7 mn. On the operational front, the company was able to control its major expenditure that resulted in a growth rate of EBITDA. Consolidated EBITDA margin improved 11bps YoY to 11% mainly due to lower cost of material consumed (down by 25bps YoY as % of sales to 50%) followed by employee costs (down 26bps YoY as a % of sales to 5.6%) and other expenses (down 121bps YoY as a % of sales to 23%). However, the sharp rise in the purchase of stock in trade (up by above 300bps YoY as a % of sales to 10.8%) has restricted the margin growth. Other income of the company rose 30% YoY to ₹106.9 mn. The effective tax rate fell to 33.2% compared to 37.8% owing to which the company's PAT rose 26% to ₹553.4 mn. Consequently, NPM rose 30bps YoY to 5.7% from 5.4%.

Revenue and net profit growth trend



For FY14, Berger saw a growth of ~16% YoY to ₹38,697.2 mn led by better volume growth and price hikes initiative undertaken by the company in the recent past.

For the full year ended March 2014, Berger also posted a healthy consolidated top-line growth of ~16% to ₹38,697.2 mn compared to the corresponding previous year period led by better volume growth and price hikes initiative undertaken by the company in the recent past. In line with decent topline growth, the company's EBITDA also grew at a healthy pace of 16% YoY to ₹4,313.7 mn. The sharp decline in the company's cost of raw materials consumed (down by 265bps to 53.3% as a percentage of net sales) also assisted the EBITDA growth. However, other expenses (as a percentage of net sales) increased 64 bps to 22.5%, employee benefit expenses rose 23 bps to 5.8% and purchase of stock in trade rose 140 bps to 8.6%. As a result, the company's operating margins was flat at 11.1%.

Finally, the net profit of the company grew by 14% YoY to ₹2,493.9 mn owing to the fall in the effective tax rate to 28.7% compared to 29.1% coupled with 14% rise in the other income to ₹359.5 mn. On the flip side, the interest cost rose by 24% to ₹466.3 mn and depreciation increased 25% to ₹707.1 mn, owing to which the company's PAT margin declined to 6.4% as compared to 6.5% in the previous year.

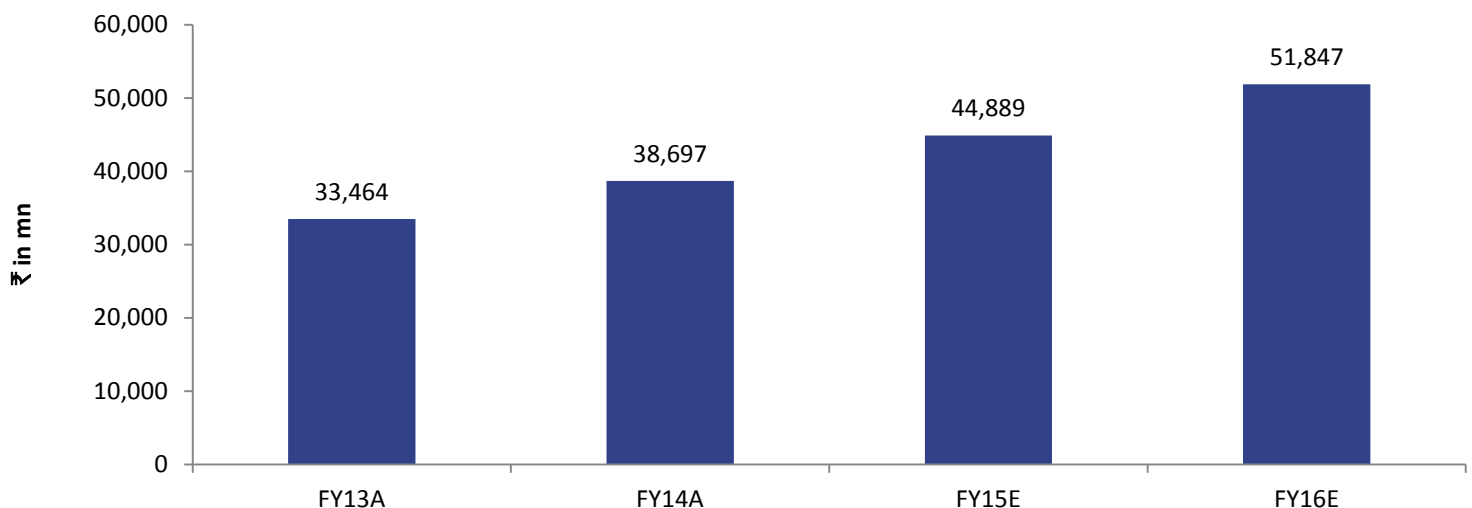
Financial Summary (Consolidated)

₹ in mn	Q4FY'14	Q4FY'13	YoY (%)	Q3FY'14	QoQ (%)	FY'14	FY'13	YoY (%)
Net Revenue	9,659.9	8,085.9	19.5	10,297.5	(6.2)	38,697.2	33,464.1	15.6
EBITDA	1,059.7	878.10	20.7	1,315.10	(19.4)	4,313.7	3,711.90	16.2
EBITDA Margin (%)	11.0	10.9	11bps	12.8	(180bps)	11.1	11.1	6bps
Other Income	106.9	82.1	30.2	83.2	28.5	359.5	314.3	14.4
Depreciation	207.7	156.2	33.0	182.8	13.6	707.1	567.2	24.7
Interest	130.1	99.4	30.9	118.6	9.7	466.3	376.6	23.8
Tax	275.4	266.6	3.3	274.1	0.5	1,005.9	898.4	12.0
PAT	553.4	438.0	26.3	822.8	(32.7)	2,493.9	2,184.0	14.2
PAT Margin %	5.7	5.4	30bps	7.9	(226bps)	6.4	6.5	(8bps)
EPS (₹)	1.6	1.3	23.1	2.4	(33.3)	7.2	6.3	14.3

Berger has raised prices by 1% from May 1 2014 and another hike of 1.2% in June 1, 2014, taking the cumulative price hike of ~2.2% post March 2014.

Price hike to help margins grow in the coming quarters

In a move to offset the increase in raw material prices, Berger continues to hike prices that reflect the strong pricing power of the company. In FY'14 the company has undertaken a cumulative price hike of ~6.3% to offset the rise in input costs. In addition to this, Berger has raised prices by 1% from May 1 2014 and another hike of 1.2% in June 1, 2014, taking the cumulative price hike of ~2.2% post March 2014. We believe that 2.2% price hike post March 2014 will help protect margins in coming quarters. The company continues to witness robust demand in Tier 2 and Tier 3 cities, which has enabled the company sustaining market share in decorative business. Despite the frequent price hike undertaken, the company does not see any major demand pullback. Going forward, Berger expects double-digit growth trend to continue led by decorative segment.

Berger revenue is expected to grow at a CAGR of ~16% during FY14-FY16E


Berger is well focused towards brand building and stepped up the premiumisation of its premium brands such as Breathe Easy, Silk, Rangoli and Weathercoat Allguard through marketing and advertising spends.

The company is eyeing to double its capacity to 1.6-lakh tonnes per annum in the next two years, and to reach 3,20,000 MTPA in the next four-five years.

Berger is eyeing on developing its premium emulsion category which has witnessed significant growth in the last few years. The company is also ramping up its decorative portfolio gradually by introducing new and revamping its existing products.

Focus towards brand building bodes well for Berger

Indian paint players are leaving no stone unturned to benefit from the robust growth in paints demand (the domestic paint industry is expected to touch ₹500 bn revenue by FY16 from ₹280 bn revenue in FY13). The companies are expanding their distribution network, penetrating newer and hitherto unexplored geographies, offering a wide degree of choice in terms of attributes and prices and educating consumers and applicators in regard to benefits of various brands and uses of paint.

In particular, Berger with brands such as Rangoli and Weathercoat would continue to be the biggest beneficiary after Asian Paints due to on-going shift towards organized segment. The company is well focused towards brand building and stepped up the premiumisation of its premium brands such as Breathe Easy, Silk, Rangoli and Weathercoat Allguard through marketing and advertising spends. The company is also equally focussed towards improved formulations as well as looks and packaging of all its products.

Capacity expansion to aid growth

Berger has lined up aggressive capacity expansion plans (both its Brown and Greenfield projects located across India) in order to meet the surging demand of its brands. Berger has commenced commercial production in Hindupur (A.P.) plant, with an initial capacity of 80,000 MTPA for water based paints. The company's new manufacturing facility was set up at an investment of about ₹2.3 bn. The company is eyeing to double its capacity to 1.6-lakh tonnes per annum in the next two years, and to reach 3,20,000 MTPA in the next four-five years. The company is also setting an emulsion plant of 1,00,000 MTPA capacity in the same area, used as intermediates in the production of these paints. The fully-automated unit will assist the company to cater the growing demand for paint in the southern parts of the country. In addition to this, the company has also set up a plastic container manufacturing unit for packaging the paints manufactured there.

Product innovation strategy to stay competitive

With its innovation strategy Berger is trying to capture market opportunities for technically superior products in the decorative paints segment. Berger stays focused towards product innovation with varied uses through constant technological advancement and upgrading to be able to tap every consumer segment. The company is eyeing on developing its premium emulsion category which has witnessed significant growth in the last few years. The company is also ramping up its decorative portfolio gradually by introducing new and revamping its existing products.

Apart from this, Berger is also expanding its industrial and infrastructure portfolio with a variety of value-added products that would give a fillip to the industrial business and will significantly increase Berger's presence in key markets.

Paint industry outlook looks promising

In light of the recent rapid economic growth in most of the emerging countries has resulted in an uptick in the architectural construction and industrial activity, which led to an increase in the demand for paints and additives. In the global paint additives market, China has emerged as the second largest market after the US. While, India is also emerging as a strong market. The Asia Pacific region (APAC) region contributes more than 40% paints and

The industry projects that total Indian revenues of the paint industry is expected to touch ₹500 bn by FY'16 as compared to ₹260 bn in 2012 backed by growing urbanisation and economic revival.

Fluctuations in domestic currency, rising raw material cost and unavailability of skilled labour are some of the key concerns for the company.

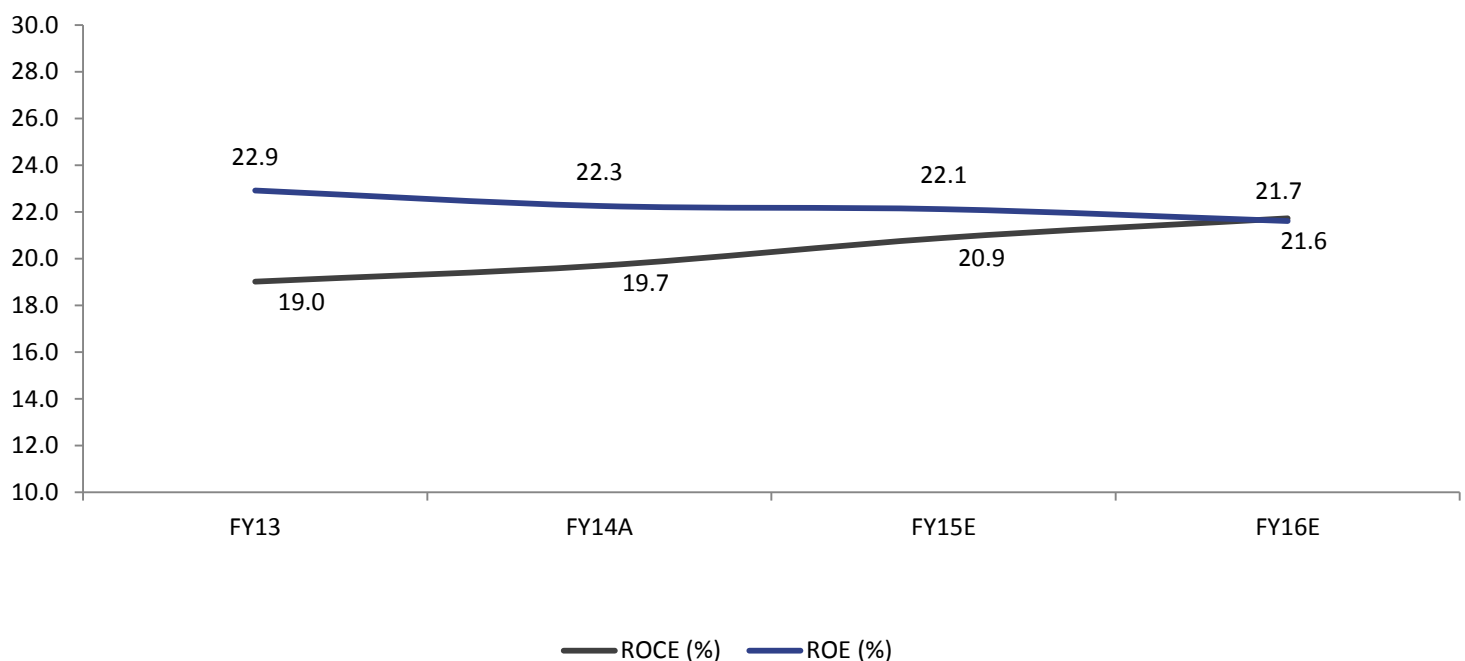
coatings market in India constitutes 15% while, China constitute around 60% in terms of volume of APAC market.

The rapidly rising popularity of branded paints with better quality and longer durability coupled with growing income level of people across urban and rural segments is driving the demand growth of the paint industry. In addition to this, the growth in the automobile and infrastructure sector in the country will further give a boost to the demand for industrial paint. The industry projects that total Indian revenues is expected to touch `500 bn by FY'16 as compared to `260 bn in 2012 backed by growing urbanisation and economic revival. Given the significant growth opportunities prevail in the domestic paint industry, Berger is focusing on developing its premium emulsion category which has witnessed significant growth in the last few years. Moreover, through product innovation, it is trying to capture market opportunities for technically superior products in the decorative paints segment.

Key Concerns

- The rupee depreciation vs USD could trigger higher raw material costs since more than 50% of material requirement is imported.
- Raw material prices constitute a major portion of the total costs of any paint industry. In case of the company, these are largely dependent on global commodity prices, their demand and availability and prices of crude which impact the costs of solvent, plastics and quite a few other chemicals. Any adverse fluctuation in these prices may affect the profitability of the company.
- Unavailability of skilled labour will be a key concern for the industry. Apart from this, unavailability of trained consultants and applicators are also a worrisome since much of the success of painting a wall depends on right application techniques.

Key ratios



Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	693	693	693	693
Reserve and surplus	8,839	10,514	12,362	14,634
Net Worth	9,532	11,207	13,055	15,327
Loans	5,497	5,282	5,018	4,767
Provisions	922	1,081	1,081	1,081
Current Liabilities	5,334	7,636	8,399	9,239
Net Deferred Tax Liability	408	538	538	538
Other long term liabilities	180	204	204	204
Capital Employed	21,872	25,949	28,296	31,157
Fixed assets	7,714	9,971	10,510	11,375
Investments	108	907	907	907
Loans and Advances	1,194	1,301	1,457	1,602
Current Assets	12,850	13,769	15,422	17,272
Foreign Currency translation	5	-	-	-
Other Assets	1	1	1	1
Capital Deployed	21,872	25,949	28,296	31,157

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	11.1	11.1	11.1	11.1
EBIT Margin (%)	9.4	9.3	9.3	9.2
NPM (%)	6.5	6.4	6.4	6.4
ROCE (%)	19.0	19.7	20.9	21.7
ROE (%)	22.9	22.3	22.1	21.6
EPS (₹)	6.3	7.2	8.3	9.6
P/E (x)	45.0	39.4	34.0	29.7
BVPS(₹)	27.5	32.3	37.7	44.2
P/BVPS (x)	10.3	8.8	7.5	6.4
EV/Operating Income (x)	3.0	2.6	2.3	1.9
EV/EBITDA (x)	27.3	23.6	20.2	17.4

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Total Income	33,464	38,697	44,889	51,847
Operating Expense	29,752	34,384	39,885	46,067
EBITDA	3,712	4,314	5,004	5,780
Depreciation	567	707	849	1,018
EBIT	3,145	3,607	4,155	4,761
Interest	377	466	513	564
Other income	314	360	396	435
Profit before Tax	3,082	3,500	4,038	4,632
Tax	898	1,006	1,151	1,320
Profit after tax	2,184	2,494	2,887	3,312

Valuation and view

The company has posted another quarter of outstanding performance during Q4FY'14 with better volumes growth. We expect the company to maintain the growth trend in future on the back of expected pickup in sales in India, recent price hikes, and relative lowering of the raw material prices and stability in rupee going ahead. We are positive on the long term growth prospects of the company's business and expect the company to sustain healthy growth momentum in domestic decorative business in the medium term on the back of demand from tier II & III cities. We believe industry paint segment to revive on the back of improvement in macro environment.

At a current CMP of ₹283.7, Berger is attractively placed at P/E and P/BVPS of 29.7x and 6.4x for FY'16E. Considering the above aspects, we rate the stock as 'BUY' with a potential upside of ~18.1% for the coming 12 months.



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.