

JUNE 25, 2019

	24-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,123	(0.2)	(0.8)	3.5
NIFTY Index	11,700	(0.2)	(1.2)	3.0
NSEBANK Index	30,602	(0.1)	(2.0)	4.5
NIFTY 500 Index	9,564	(0.2)	(1.6)	1.6
CNXMcap Index	17,353	(0.3)	(2.0)	(1.4)
BSESMCAP Index	14,063	(0.1)	(4.3)	(3.6)
World Indices				
Dow Jones	26,728	0.0	4.5	4.7
Nasdaq	8,006	(0.3)	4.8	4.8
FTSE	7,417	0.1	1.9	3.3
NIKKEI	21,286	0.1	0.6	1.2
Hangseng	28,513	0.1	3.5	(0.7)
Shanghai	3,008	0.2	4.6	(1.9)

Value traded (Rs cr)	24-Jun	% Chg Day
Cash BSE	3,244	31.8
Cash NSE	25,172	(36.2)
Derivatives	-	-

Net inflows (Rs cr)	21-Jun	MTD	YTD
FII	(1,002)	60	78,107
Mutual Fund	503	2,875	5,377

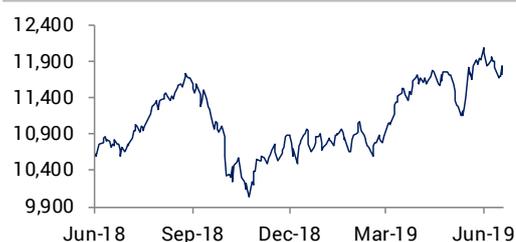
Nifty Gainers & Losers	Price	Chg	Vol
24-Jun	(Rs)	(%)	(mn)
Gainers			
UPL LTD	890	2.3	12.5
TECH MAHINDR	740	2.1	7.3
INDIABULLS H	612	2.0	38.7
Losers			
YES BANK LTD	110	(4.3)	106.4
MARUTI SUZUK	6,417	(3.0)	1.4
HOUSING DEV	2,141	(2.7)	7.8

Advances / Declines (BSE)					
24-Jun	A	B	T	Total	% total
Advances	206	464	59	729	100
Declines	248	464	66	778	107
Unchanged	7	42	6	55	8

	24-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	64.8	(0.1)	(5.7)	(3.6)
Gold (US\$/OZ)	1,419.7	1.4	10.9	7.8
Silver (US\$/OZ)	15.4	0.7	6.1	(0.6)

Debt / Forex Market	24-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.9	6.9	7.2	7.3
Re/US\$	69.4	69.6	69.5	68.9

Nifty



Source: Bloomberg

News Highlights

- ▶ The government may lower interest rates on small savings schemes for the July-September quarter, according to senior government sources. The cut may only be for some and not all small savings schemes, and could be as high as 30-50 basis points. (BS)
- ▶ The Securities and Exchange Board of India plans to tighten rules of pledging shares by promoter group entities. The market regulator will soon direct promoters whose pledged shares exceed 20 per cent of the equity capital to cite detailed reasons for this. (BS)
- ▶ Readymade garment exports are picking up after a slump lasting almost two years, buoyed by the government increasing tax rebate and helping the sector with other measures. Garment exports rose by nearly 14.05% to \$1.528 bn in May 2019 compared to \$1.339 bn in the same month last year. (BS)
- ▶ The government is set to make it clear that services provided by an office of an organisation in one state to another office in another state will face goods and services tax. (ET)
- ▶ Wireless subscriber additions for April remained flat, growing 0.04% to 1.16 bn after a decline of nearly 22 mn in March, the data released by the TRAI showed that rural subscription growth dipped 1.38% to 509.6 mn. Bharti **Airtel and Vodafone** Idea continued to lose subscribers even as Reliance Jio and BSNL gained subscribers. (BS)
- ▶ **Larsen & Toubro** has bagged a turnkey contract for building a power generation project worth over Rs70 bn after a dry spell of three years. (ET)
- ▶ The Vedanta Group plans to invest heavily in solar energy to generate 1,000 MW in a couple of years, and will bid aggressively for government projects that are tendered as the metals and mining multinational seeks to increase generation and consumption of emission free power. (ET)
- ▶ **Tata Consultancy Services** announced a 15% increase in its stake in TCS Japan, its joint venture with Mitsubishi Corporation (MC), with an investment of JPY3.5 bn (\$32.6 mn). (BS)
- ▶ **IFCI** is planning to sell its remaining stake in the National Stock Exchange. In an exchange filing, IFCI said it was planning to sell 12 million shares, comprising 2.44%, it holds in the exchange. (BS)
- ▶ **Unitech** group secured Rs20 bn investment from two asset reconstruction companies to complete pending projects and is scouting for more investors for additional funding as the date set by the Supreme Court to deposit money nears in July. (ET)

What's Inside

- ▶ **Company Update:** Berger Paints Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

BERGER PAINTS LTD (BERGER)

Stock Details

Market cap (Rs mn)	:	305099
52-wk Hi/Lo (Rs)	:	350 / 260
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	902,757
Shares o/s (mn)	:	971.0

Source: Bloomberg

Financial Summary - Standalone

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	60,618	65,134	71,245
Growth (%)	17.3	7.4	9.4
EBITDA	8,818	9,652	10,725
EBITDA margin (%)	14.5	14.8	15.1
PAT	5,011	5,738	6,440
EPS	5.2	5.9	6.6
EPS Growth (%)	7.7	14.5	12.2
BV (Rs/share)	25.9	30.0	34.9
Dividend/share (Rs)	1.8	1.8	1.8
ROE (%)	21.4	21.2	20.4
ROCE (%)	29.3	28.7	28.3
P/E (x)	61.4	53.6	47.8
EV/EBITDA (x)	32.6	29.9	27.0
P/BV (x)	12.2	10.6	9.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	75.0	75.0	75.0
FII	5.1	5.2	5.3
DII	9.2	9.3	9.1
Others	10.7	10.6	10.6

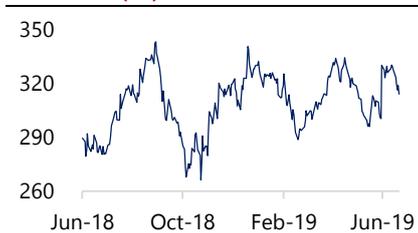
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Berger Paints	0.8	0.7	(5.0)
Nifty	0.4	2.0	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.314

TARGET RS.300

SELL

In the last few quarters, Berger has been able to deliver strong volume growth in both the key segments of decorative and industrial paints, has shown continuous improvement in financial performance and grown faster than its peers - Asian Paints and Kansai Nerolac leading to market share gains for Berger. Post factoring the growth prospects, the valuations at the current price is stretched with the stock trading at 47.8x FY21E earnings. We continue to recommend SELL with TP of Rs 300.

Decorative segment

Berger is the second biggest decorative paint company in the country. In FY19, in the decorative segment, Berger reported 13% YoY volume growth. The decorative business constitutes around 80% of Berger's overall business and typically grows at 1.5x the GDP of the country. The current volume growth of ~13% on a strong base (~11% volume growth in FY18) indicates market share gains for Berger.

In terms of region, Berger has strong presence in the North and East markets and making efforts to improve geographical reach in fast growing markets of West and South India. In terms of products, the focus of the company remains on mid-range products which is shifting towards emulsions.

Focus area of the company

Region focus		Product category focus	
Current	Target	Current	Target
East and North	West and South	Mid-range	Mid to high range

Source: Kotak Securities - Private Client Research, Company

Berger is expecting healthy volume growth in the decorative segment on the back of low per-capita consumption in the country, strong urbanization trends, shortening re-painting cycles, up-trading, real estate reforms and pick-up in capex cycle (both private and government).

Industrial paints segment

In Industrial paints, Berger is primarily present in Automotive coating and Industrial coating. Automotive paints constitute around 10% of the overall revenues of the company and remains strong for the company with healthy demand of automobiles in the country. Berger is empanelled with all major automobile companies in the 2 wheeler and 3 wheeler segment. While general industrial coating constitute around 8% of the overall revenues of the company. Management expects general industrial segment to do well in FY20 which should boost the overall performance of the company.

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Main customers for Berger in Industrial segment

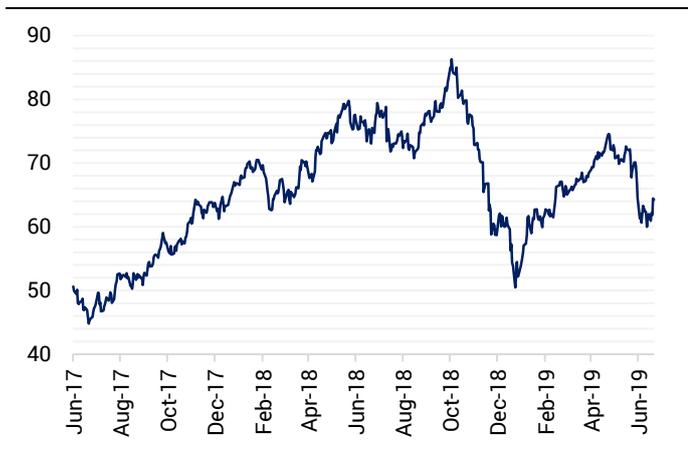
General Industrial	Automotive
Construction, Heavy Engineering & Agricultural Equipment	Commercial Vehicles: Tata Motors, Ashok Leyland, Mahindra & Mahindra
Electrical Industry: Crompton, Orient, Marathon Electric, Havells, Bajaj	Two Wheelers: Hero MotoCorp, Royal Enfield, TVS Motor Co, Bajaj Auto
Furniture & Office Equipment Industry	
Cycle Industry	
Barrel & Container Industry	

Source: Company

Raw Material and Pricing Power

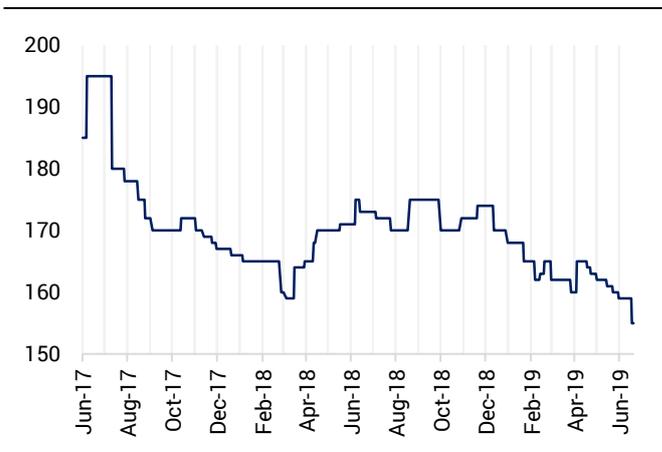
Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint Industry has been experiencing volatility in prices of raw material since the last 4 quarters. Almost ~60% of the raw material are crude derivatives and with crude at \$64/barrel (+22% YTD and -25%YoY), prices of crude derivatives have also increased. Even prices of pigments like Titanium Dioxide, Iron oxide and Zinc oxide have increased. Even INR volatility has contributed to cost inflation for the company. To counter this, the management of paint companies including Berger have resorted to price increase and cost optimization. Volatility in crude prices remains a key risk for paint companies.

Prices of crude (\$/barrel)



Source: Bloomberg

Prices of Titanium dioxide (\$/tonne)



Source: Bloomberg

Capacity expansion

Currently, Berger has an installed manufacturing capacity of 609,247 Kilo Litres per annum, of which 79% caters to the decorative paints business, followed by protective coatings. Current utilization level is 80%.

The company is now setting up a Greenfield unit at Sandila industrial area in Uttar Pradesh at an investment of Rs 2 bn (expected to be completed by 2021) and another Rs 800 mn is getting spent for expanding the company's existing unit at Jejuri in Maharashtra (expected by 2020). The new plants/expansion are expected to cater to the future requirement of the company. Broadly we feel, Berger to spend Rs 2 bn per annum towards capital and maintenance capex put together.

Valuation and Outlook

We estimate that branded paint demand will remain robust in a country like India where per capita consumption is very low and 30% paint market is still unorganised. Management of Berger also indicated that the volume trends remain strong for the company and expect the trend to continue in medium term.

Berger's performance has been better than peers and is indicative of continued market share gains. Reduction in GST rates can drive further improvement in demand. For Berger, now we estimate 8% volume CAGR over FY19-FY21E with improvement in operating margins and ROE of ~20.4% and ROCE of ~28.3% for FY21E. The stock is trading at an exorbitant valuation of 47.8x FY21E earnings. Consequently, we continue to recommend SELL with TP of Rs 300.

Company background

Berger Paint is the second largest decorative paint company in India and third largest in domestic industrial segment. It enjoys ~19% share of organized domestic decorative market. Berger also has a presence in overseas markets, prominent ones being Nepal (where it is a significant player in decorative market) and Poland (where it is second largest player in external insulation finishing system). Berger also has two JVs where Berger has 49% stake – a) Berger Becker Coatings Pvt Ltd catering to coil coatings – JV with Becker Industrifarg, Sweden which is a leading coil and special coatings player in Europe, and b) BNB Coatings India Ltd for manufacture of coatings for plastic substrates – JV with Nippon Bee Chemicals Co Ltd of Japan.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	51,657	60,618	65,134	71,245
% change YoY	13.5	17.3	7.4	9.4
Raw material cost	29,858	36,994	38,005	41,456
Employee cost	2,833	4,085	3,606	3,934
Other expenses	10,897	10,721	13,871	15,130
Total Operating expd	43,588	51,800	55,482	60,520
EBITDA	8,069	8,818	9,652	10,725
Depreciation	1,243	1,377	1,400	1,425
EBIT	6,826	7,441	8,252	9,300
Other income	459	600	625	650
Interest expense	200	323	350	375
Profit before tax	7,085	7,718	8,527	9,575
Tax	2,440	2,732	2,814	3,160
ETR (%)	34.4	35.4	33.0	33.0
Profit after tax	4,645	4,986	5,713	6,415
Minorities & Associates	7	25	25	25
Net income	4,652	5,011	5,738	6,440
% change YoY	-2.3	7.7	14.5	12.2
Shares outstanding (m)	970	970	970	970
EPS (Rs)	5.2	5.9	6.6	0.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PAT	4,652	5,011	5,738	6,440
Non Cash items	1,487	1,650	1,681	1,741
Change in working capital	(889)	(1,299)	(655)	(886)
Cash flow from operations	5,250	5,362	6,765	7,295
Capex	(2,500)	(2,000)	(2,000)	(2,500)
Investments	(94)	-	(200)	(300)
Cash flow from investments	(2,594)	(2,000)	(2,200)	(2,800)
Equity issuance	-	0	-	-
Debt raised	(174)	(207)	(186)	(117)
Dividend Paid	(2,004)	(2,004)	(2,005)	(2,006)
Miscellaneous items	-	-	-	-
Cash flow from financing	(2,178)	(2,210)	(2,191)	(2,123)
Net cash flow	478	1,152	2,374	2,372
Opening cash	3,649	4,128	5,279	7,653
Closing cash	4,128	5,279	7,653	10,025

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash	4,128	5,279	7,653	10,025
Debtors	6,405	7,517	8,077	8,834
Inventory	9,815	11,517	12,375	13,537
Other current assets	1,963	2,303	2,475	2,707
Total current assets	18,183	21,338	22,927	25,078
LT investments	1,000	1,000	1,200	1,500
Net fixed assets	13,274	13,897	14,497	15,572
Total assets	36,585	41,514	46,277	52,175
Creditors	6,715	7,880	8,467	9,262
Provisions	1,395	1,637	1,759	1,924
Loans and advances	2,583	3,031	3,257	3,562
Total current liabilities	10,693	12,548	13,483	14,748
LT debt	4,065	3,859	3,673	3,555
Equity Capital	970	970	970	970
Reserves	20,857	24,137	28,152	32,902
Networth	21,827	25,107	29,122	33,872
Total liabilities	36,585	41,514	46,277	52,175
BVPS (Rs)	22.5	25.9	30.0	34.9

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	15.6	14.5	14.8	15.1
EBIT margin (%)	13.4	13.2	12.3	12.7
Net profit margin (%)	10.5	9.0	8.3	8.8
ROE (%)	22.8	21.4	21.2	20.4
ROCE (%)	29.7	29.3	28.7	28.3
DPS	1.8	1.8	1.8	1.8
Dividend payout (%)	43.1	40.0	34.9	31.1
Working capital turnover (days)	49.8	49.0	51.1	50.7
Debt Equity (x)	0.2	0.2	0.1	0.1
PER (x)	66.1	61.4	53.6	47.8
P/C (x)	50.1	46.2	41.5	37.6
Dividend yield (%)	0.6	0.6	0.6	0.6
P/B (x)	14.1	12.2	10.6	9.1
EV/Sales (x)	5.9	5.1	4.7	4.3
EV/ EBITDA (x)	36.0	32.6	29.9	27.0

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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