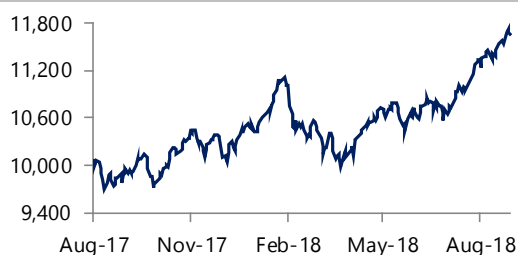


AUGUST 31, 2018

	30-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,690	(0.1)	3.2	10.8	
NIFTY Index	11,677	(0.1)	3.2	10.0	
NSEBANK Index	28,103	(0.4)	0.9	6.7	
NIFTY 500 Index	9,975	0.0	3.7	7.8	
CNXMcap Index	19,852	0.1	5.6	4.6	
BSESMCAP Index	17,100	0.3	3.4	(1.4)	
World Indices					
Dow Jones	25,987	(0.5)	2.2	6.4	
Nasdaq	8,088	(0.3)	5.4	8.7	
FTSE	7,516	(0.6)	(3.0)	(2.1)	
NIKKEI	22,870	0.1	1.2	2.8	
Hangseng	22,870	0.1	1.2	2.8	
Shanghai	28,164	(0.9)	(2.6)	(8.6)	
Value traded (Rs cr)					
	30-Aug	% Chg Day			
Cash BSE	2,625	(6.8)			
Cash NSE	41,144	16.3			
Derivatives	1,931,286	78.8			
Net inflows (Rs cr)					
	29-Aug	MTD	YTD		
FII	(1,404)	73	(3,338)		
Mutual Fund	(151)	3,808	76,330		
Nifty Gainers & Losers					
	Price	Chg	Vol		
30-Aug	(Rs)	(%)	(mn)		
Gainers					
Sun Pharma	640	3.0	9.0		
Tata Steel	608	2.4	10.3		
Gail India	376	2.4	10.7		
Losers					
Eicher Motors	27,602	(2.1)	0.1		
Bajaj Finance	2,927	(2.0)	1.5		
HPCL	253	(1.8)	10.9		
Advances / Declines (BSE)					
	A	B	T	Total	% total
30-Aug					
Advances	247	555	74	876	100
Declines	184	458	76	718	82
Unchanged	1	32	14	47	5
Commodity					
	30-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	77.7	(0.1)	4.6	0.1	
Gold (US\$/OZ)	1,200	(0.6)	(1.8)	(7.5)	
Silver (US\$/OZ)	14.5	(1.4)	(6.2)	(11.3)	
Debt / forex market					
	30-Aug	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.9	7.9	7.8	7.8	
Re/US\$	70.7	70.6	68.7	67.4	

Nifty



Source: Bloomberg

News Highlights

- ▶ Bankruptcy court admits insolvency plea against Lavasa Corp. Lavasa, which owes more than Rs.30bn to lenders, owns about 20,000 acres in Maharashtra. (Mint)
- ▶ The Reserve Bank of India (RBI) has expressed concerns over banks not adhering to the regulator's income recognition and asset classification norms (IRAC) and reporting divergences in bad loan numbers. (Mint)
- ▶ Natural gas price may be hiked by 14% from October. Rate hike will lead to higher CNG price and increased cost of electricity and urea production. (Mint)
- ▶ The Union government plans to provide Rs.10bn as subsidy for building a nationwide charging infrastructure for electric vehicles as it seeks to expedite the roll-out of India's ambitious EV programme. (Mint)
- ▶ **JSW** submits revised bid worth Rs.62bn for Prayagraj Power. Prayagraj has a 1,980 MW super critical coal-based power project in UP and figured in the 12 February circular of RBI. (Mint)
- ▶ **Fortis Healthcare** CFO Gagandeep Singh Bedi resigns. The Board of Directors of the company at its meeting have considered Bedi's resignation from the services of the company, and accepted the same, with effect from September 30, 2018. (Mint)
- ▶ US-based Simonelli Innovation LLC has sued **Tata Consultancy Services Ltd** in a Texas court, alleging India's largest information technology (IT) outsourcing firm wrongfully used its intellectual property (IP) and trade secrets to build its own consulting practice. (Mint)
- ▶ The National Company Law Tribunal has approved the merger of **Idea Cellular** and the Indian unit of Vodafone Group. New merged entity to overtake Airtel as India's largest mobile phone operator. (Mint)
- ▶ **HPCL** to invest Rs.750bn to expand refining capacity, pipelines, LNG terminal. It is focused on enhancing the refinery footprint to increase self-sufficiency, diversify into the profitable segment of petrochemicals, expand the refining and marketing business in new geographies and create presence in the future business line of natural gas for achieving growth and superior financial performance. (Mint)
- ▶ **ICICI Bank** votes for Kochhar's reappointment to **ICICI Securities** board. All the promoter and promoter group shareholders voted for her reappointment, while only 2.27% votes were against it. (BS)
- ▶ The Reserve Bank of India (RBI) has allowed **Yes Bank** CEO Rana Kapoor to continue in his present position till further notice just a day before his current three-year term was about to end. (ET)

What's Inside

- ▶ **Management Meet Update:** Berger Paints Ltd.

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

Management Meet Update

Stock Details

Market cap (Rs mn)	:	327336
52-wk Hi/Lo (Rs)	:	350 / 232
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	992,827
Shares o/s (mn)	:	971.0

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	51,657	57,676	64,332
Growth (%)	13.5	11.7	11.5
EBITDA	8,069	9,210	10,430
EBITDA margin (%)	15.6	16.0	16.2
PAT	4,652	5,759	6,583
EPS	4.8	5.9	6.8
EPS Growth (%)	-2.3	23.8	14.3
BV (Rs/share)	22.5	26.6	31.7
Dividend/share (Rs)	1.8	1.8	1.8
ROE (%)	22.8	24.2	23.3
ROCE (%)	29.7	30.6	30.4
P/E (x)	70.7	57.1	50.0
EV/EBITDA (x)	38.5	33.8	30.1
P/BV (x)	15.1	12.7	10.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	75.0	75.0	75.0
FII	5.3	5.7	5.3
DII	9.1	8.5	3.5
Others	10.6	10.8	16.2

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Berger Paints	7.6	12.0	35.5
Nifty	3.2	10.0	11.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Amit Agarwal

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BERGER PAINTS LTD (BERGER)

PRICE Rs.338

TARGET Rs.305

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 50x FY20E earnings. We continue to recommend SELL with an unchanged TP of Rs 305 at 45x FY20E earnings in line with valuation accorded to market leader Asian Paints.

Decorative segment

Berger is the second biggest decorative paint company in the country. In Q1FY19, in the decorative segment, Berger reported 15% 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 ~15% on a strong base (~11% volume growth in Q1FY18) indicates market share gains for Berger

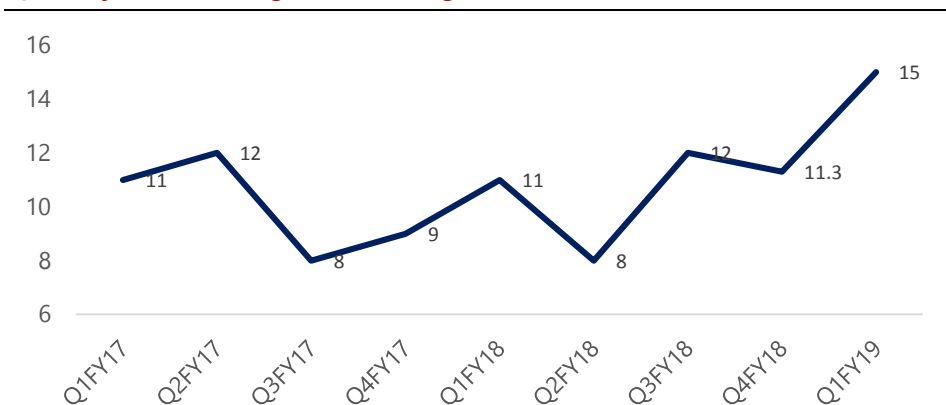
In terms of region, Berger has strong presence in the North and East markets and making efforts to improve geographical reach in fast growing markets of West and South India. In terms of products, the focus of the company remains on mid-range products which is shifting towards emulsions.

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

Quarterly decorative segment volume growth (%)



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). We also believe that the reduction in GST on Paints (from 28% to 18%) from 27th July, 2018 would result in 9-10% price correction in products and will further drive demand for organized paint companies.

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 the pre-election year of FY19 which should boost the overall performance of the company.

Main customers for Berger in Industrial segment

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

Source: Company

Performance of Subsidiaries and international business

Berger Paints has a total of 7 subsidiaries and 2 associates. Following is the list of subsidiaries for Berger.

Performance of subsidiaries

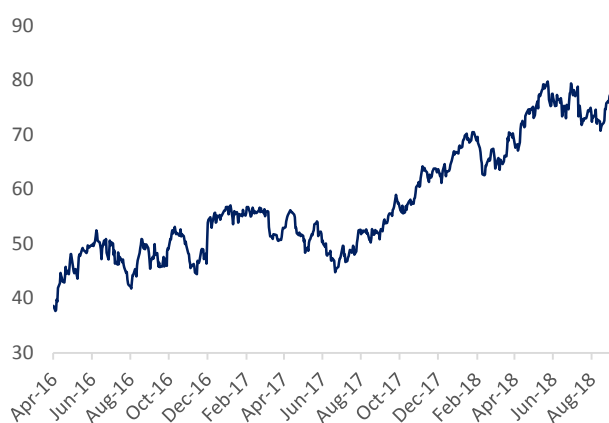
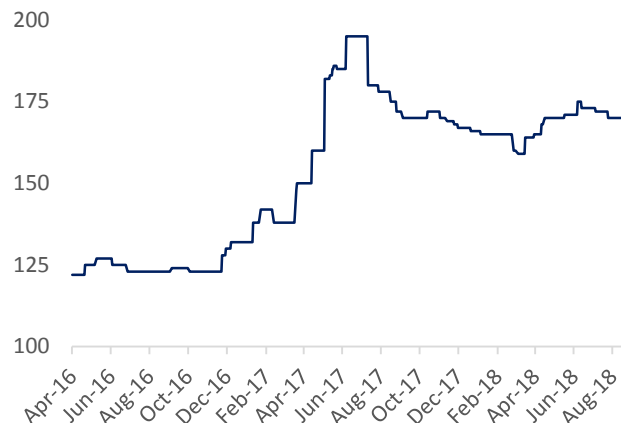
Group company Nature	Beepee coatings Subsidiary	Saboo Coatings Subsidiary	Jensen Nicholson Subsidiary	Berger Cyprus Subsidiary	Berger Nepal Subsidiary	Bolix Subsidiary	Lusako Subsidiary
Holding (%)	100	100	100	100	100	100	100
Focus area	All	Industrial	Decorative	All	All	All	All
Revenue FY18 (mn)	241	873	NM	NM	1513	2311	NM
PAT FY18 (mn)	24	42	NM	Loss making	304	72	Loss making

Source: Kotak Securities – Private Client Research, Company

Apart from the above mentioned subsidiaries, Berger has 2 associates- Berger Becker and Berger Nippon. Operational performance of subsidiaries was healthy in Q1FY19. However, adverse currency movement in a couple of subsidiaries led to Berger booking only a marginal PAT of Rs 8 mn from associates/subsidiaries. Berger Nepal and Bolix remain the key subsidiaries for Berger.

Raw Material and Pricing Power

Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint Industry is experiencing increase in prices of raw material since the last 4 quarters. Almost ~60% of the raw material are crude derivatives and with crude at \$77/barrel (+50% 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. We expect Berger to completely pass on cost inflation to consumers by end of FY19 and report strong operational performance.

Prices of crude in US\$

Prices of Titanium dioxide (\$/MT)


Source: Bloomberg

Latest development – reduction in GST a big positive for the company

Paint industry was paying excise of 12.5% and 15% VAT under the old regime. So introduction of GST rate of 28% in July 2017 did not change the price at the consumer end with some adjustment happening only at the dealer end.

Post the current reduction of GST rate from 28% to 18% (from 27th July, 2018), we expect paint companies (they had shown intent earlier also) to reduce the prices and pass on the benefit partially to consumers which is estimated to boost the volumes for paint industry. Partially the benefit of lower GST may be retained (in the long-run) by the paint companies as a cushion against rising raw material prices. Both the reactive steps by the industry would aid the margins and bottom line of paint companies going forward. It is important to note that Berger has already reduced product prices proportionate to decrease in GST rates.

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 1.5 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 10% volume CAGR over FY18 – FY20E with improvement in operating margins and ROE of ~23.3% and ROCE of ~30.4% for FY20E. The stock has moved up by more than 40% in the last 6 months and is trading at an exorbitant valuation of 50x FY20E earnings. Consequently, we continue to recommend SELL with an unchanged TP of Rs 305 at 45x FY20E earnings in line with valuation accorded to market leader Asian Paints.

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)	FY17	FY18	FY19E	FY20E
Revenues	45,524	51,657	57,676	64,332
% change YoY	(1.8)	13.5	11.7	11.5
Raw material cost	26,259	29,858	33,199	36,923
Employee cost	2,492	2,833	3,150	3,504
Other expenses	9,584	10,897	12,117	13,476
Total Operating expd	38,335	43,588	48,466	53,902
EBITDA	7,189	8,069	9,210	10,430
Depreciation	1,081	1,243	1,200	1,200
EBIT	6,108	6,826	8,010	9,230
Other income	1,088	459	500	500
Interest expense	162	200	200	225
Profit before tax	7,034	7,085	8,310	9,505
Tax	2,295	2,440	2,576	2,947
ETR (%)	32.6	34.4	31.0	31.0
Profit after tax	4,739	4,645	5,734	6,558
Minorities & Associates	23	7	25	25
Net income	4,762	4,652	5,759	6,583
% change YoY	41.0	2.0	24.5	13.9
Shares outstanding (m)	970	970	970	970
EPS	4.9	4.8	5.9	6.8

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	4,762	4,652	5,759	6,583
Non Cash items	1,311	1,487	1,458	1,495
Change in working capital	119	(889)	(873)	(965)
Cash flow from operations	6,192	5,250	6,344	7,113
Capex	(2,500)	(2,500)	(2,000)	(2,000)
Investments	(798)	(94)	-	-
Cash flow from investments	(3,298)	(2,594)	(2,000)	(2,000)
Equity issuance	-	-	0	-
Debt raised	918	(174)	(207)	(186)
Dividend Paid	(2,003)	(2,004)	(2,004)	(2,005)
Miscellaneous items	-	-	-	-
Cash flow from financing	(1,086)	(2,178)	(2,210)	(2,191)
Net cash flow	1,808	478	2,134	2,922
Opening cash	1,841	3,649	4,128	6,261
Closing cash	3,649	4,128	6,261	9,184

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	3,649	4,128	6,261	9,184
Debtors	5,645	6,405	7,152	7,977
Inventory	8,650	9,815	10,958	12,223
Other current assets	1,730	1,963	2,192	2,445
Total current assets	16,024	18,183	20,302	22,645
LT investments	906	1,000	1,000	1,000
Net fixed assets	12,017	13,274	14,074	14,874
Total assets	32,597	36,585	41,637	47,702
Creditors	5,918	6,715	7,498	8,363
Provisions	1,229	1,395	1,557	1,737
Loans and advances	2,276	2,583	2,884	3,217
Total current liabilities	9,423	10,693	11,939	13,317
LT debt	4,239	4,065	3,859	3,673
Equity Capital	970	970	970	970
Reserves	17,964	20,857	24,870	29,743
Networth	18,935	21,827	25,840	30,713
Total liabilities	32,597	36,585	41,637	47,702
BVPS (Rs)	19.5	22.5	26.6	31.7

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.8	15.6	16.0	16.2
EBIT margin (%)	13.4	13.2	13.9	14.3
Net profit margin (%)	10.5	9.0	10.0	10.2
ROE (%)	27.3	22.8	24.2	23.3
ROCE (%)	33.9	29.7	30.6	30.4
DPS	1.8	1.8	1.8	1.8
Dividend payout (%)	42.1	43.1	34.8	30.5
Working capital turnover (days)	53.4	49.8	50.2	50.2
Debt Equity (x)	0.2	0.2	0.1	0.1
PER (x)	69.1	70.7	57.1	50.0
P/C (x)	54.2	53.6	45.6	40.7
Dividend yield (%)	0.5	0.5	0.5	0.5
P/B (x)	17.4	15.1	12.7	10.7
EV/Sales (x)	7.2	6.4	5.7	5.1
EV/ EBITDA (x)	39.7	38.5	33.8	30.1

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative 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.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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