

BERGER PAINTS LTD

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BUY

Last report at Rs.238 on 22 December 2015

Current Market Price (Rs) 239	Target Price (Rs) 275	Potential Upside (%) 15.0%	52 Week H/L (Rs) 253 / 171	Mkt Cap (Rs mn) 165880
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INVESTMENT ARGUMENT

- Berger has added capacity across segments which has led to increase in volume for Berger esp. in the decorative volume growth which was ahead of market for FY15
- With improvement in macro environment, industrial capex and automotive sales, we estimate contribution of industrial segment to overall revenues and profitability to improve for Berger over FY15 to FY17E.
- The company has been focusing on enhancing the share of premium products, also benefiting from consumer up trading. Improved mix has supported top-line growth and is also a key margin growth driver over medium term for the company
- Berger is focused on improving its brand image and improve geographical reach through increasing its dealer base, effective regular advertisement, investment in R&D and introduction of niche products
- Performance of JVs and subsidiaries continue to be strong
- With improving macro environment and benign raw material situation, we expect the EBITDA margins of the company to improve 240 bps over FY15 to FY17E

RISKS & CONCERNS

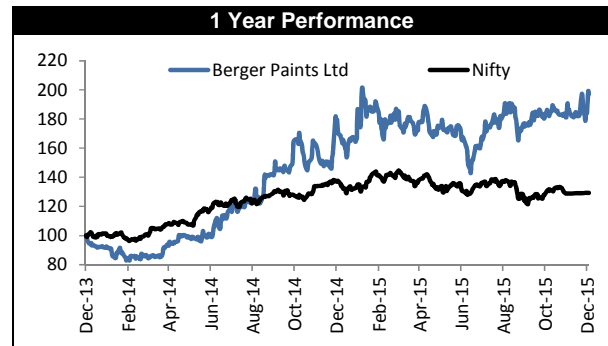
- Weak macro environment leading to poor demand for decorative paints
- Prolong slowdown in the economy leading to weak capex cycle impacting industrial demand

COMPANY BACKGROUND

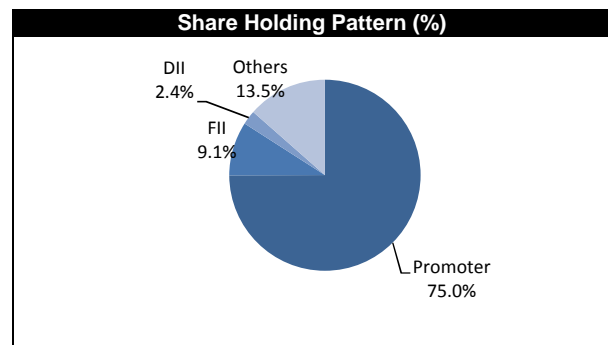
Berger Paint is the second largest decorative paint company in India and third largest in domestic industrial segment. It enjoys ~19% share of organized domestic decorative market. Berger also has a presence in overseas markets, prominent ones being Nepal (where it is a significant player in decorative market) and Poland (where it is second largest player in external insulation finishing system).

SECTOR BACKGROUND

The Paint sector is highly fragmented with 70% business with the unorganized sector. The organized paint sector is broadly divided into two areas: Decorative segment with 80% market share and Industrial Segment with 20% market share.



Source: Bloomberg



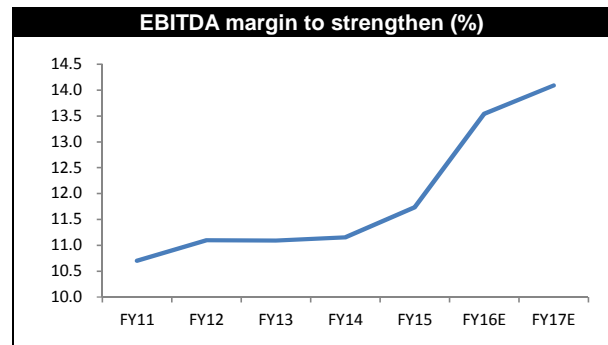
Source: Bloomberg

FINANCIALS (RS MN)	FY15	FY16E	FY17E
Sales	43,273	48,514	56,509
Growth (%)	11.8	12.1	16.5
EBITDA	5,077	6,571	7,962
EBITDA margin (%)	11.7	13.5	14.1
PBT	4,011	5,531	6,817
Net profit	2,848	3,927	4,840
EPS (Rs)	4.1	5.7	7.0
Growth (%)	14.1	37.9	23.2
CEPS (Rs)	5.6	7.2	8.7
Book value (Rs/share)	20.0	24.8	30.9
Dividend per share (Rs)	1.0	1.0	1.0
ROE (%)	20.5	22.9	22.6
ROCE (%)	23.0	26.1	26.7
Net cash (debt)	(3,210)	(2,071)	(157)
Net Working Capital (Days)	44.4	51.4	55.3

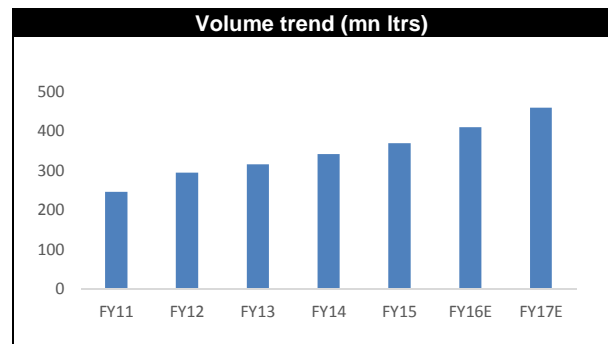
VALUATION PARAMETERS	FY15	FY16E	FY17E
P/E (x)	58.2	42.2	34.2
P/BV (x)	11.9	9.7	7.8
EV/Sales (x)	3.9	3.4	2.9
EV/EBITDA (x)	33.1	25.4	20.7

PRICE PERFORMANCE (%)	1M	3M	6M
	7.7	8.2	24.6

Source: Bloomberg, Company, Kotak Securities - Private Client Research



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