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Berger Paints

Strong quarter led by pent-up demand, urban recovery and international traction; Grasim entry key concern

- ✓ **View** – Berger Paints has again posted a relatively better performance than Asian Paints given its relatively stronger position in smaller markets. While the management is not unduly worried as of now about Grasim's aggressive plans for the paints business, we believe that it would remain an overhang and a reason for valuation multiples to cool off a bit from current levels of 70x FY23E earnings.
- ✓ **Quarter summary** – 24% revenue growth (32% volume growth), 45% EBITDA growth and 53% PAT growth; robust growth in decorative business, significant recovery in automotive and industrial, resilient growth in infrastructure business; lower priced RM inventories especially solvents led to healthy GM expansion, but prices firming up now.
- ✓ **Management commentary** - Increased marketing spends aggressively to support growth, overheads well in control, new formulations led to some cost savings, strong growth in waterproofing segment, strong recovery in metro markets while Tier 2/3 trends sustained.
- ✓ **Subsidiary performance** – Healthy growth in topline and margins in Nepal, Saboo and STP, Bolix saw improved numbers in UK, Russia had MTM loss due to ruble depreciation, both JVs also saw improved performance.
- ✓ **Grasim entry into paints** – Grasim has plans for backward integration and plans to utilize the cement dealer network which gives it some advantage, but not unduly concerned and confident of expanding network and protecting market share, opportunity still quite large especially for value added products and services.
- ✓ **Tinting machine necessity** – Possible to reach consumers without tinting machines in few European markets like Poland, speed and response time is higher due to tinting machines with dealers.
- ✓ **Relative performance vs peers** – Did better than Asian Paints in 3Q (2% higher growth) given relatively late recovery in metro markets where Berger is relatively weaker; could have done better in protective coatings.
- ✓ **Demand drivers** – Combination of pent-up demand in larger markets and recovery in demand led by real estate, better consumer sentiment; momentum sustaining in smaller markets even now further helped by expansion in distribution network.
- ✓ **Home hygiene category** – Looking to ramp up distribution in home hygiene products like kitchen cleaners, currently selling only through paint network.
- ✓ **Margin outlook** – Evaluating price hikes in industrial paints to counter rising input costs, current RM inflation is manageable in decorative paints and will take a call on pricing in 1-2 quarters.
- ✓ **UP capacity expansion** - Commissioning of upcoming plant has been brought forward in addition to an additional outlay for higher capacity than originally planned given strong demand outlook; targeting completion by early CY22; will start with 300,000KL which is scalable upwards later, currently spending about 500crs.
- ✓ **Monthly progression** - Late Diwali also contributed to very strong growth in early part of quarter, but smaller cities performance has sustained even after the festive period.

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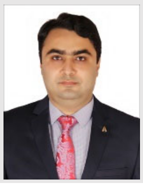

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Berger Paints

- ✓ **Volume value mix** – Both economy and premium segments have done well, volume-value differential remains stable at 8% indicating 32% volume growth for the quarter.
- ✓ **Market share** – Unorganized players would have surely lost market share during the last few quarters while Top 2 players seem to have gained share.

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