

### Impressive volume growth in subdued demand conditions

- BRGR's Q3FY25 results were in line with our estimate. Despite muted consumer sentiments, the company's standalone volume grew by 7.4%, while revenue grew by 0.4%. On a 4-yr CAGR basis, revenue/volume grew by 16.7/15.6%. The performance was better than the competition; Asian Paints/Kansai Nerolac/Indigo Paints posted -6.1/+0.2/-4.0% respectively.
- On standalone basis, GM contracted by 50bps to 39.8% due to 1) ~5% price reduction in the base quarter, 2) currency depreciation in Q3FY25 and 3) inventory impact of monomer price increase. Furthermore, EBITDAM contracted by 50bps due to higher employee costs. However, it has improved sequentially led by specific operating leverage. Going ahead, EBITDAM is expected to remain in 15-17% range.
- We have downward revised our FY25E EPS by 4.8% to Rs. 9.4, however, maintained FY26/27E EPS at Rs 11.3/12.7. Valuing the stock at 45x FY27E EPS, we maintain TP at Rs. 569. Considering the recent fall in stock price, we upgrade the stock to 'BUY'.

### Results in line estimates

On a consolidated basis, revenue grew by 3.2% YoY to Rs 29.8bn in Q3FY25. Despite muted urban demand and slowdown in a few key markets, Berger registered high single-digit volume growth in the decorative segment in Q3FY25. Furthermore, it witnessed a sequential uptick in both volume and value growth. GM expanded by 50bps to 41.6% in Q3FY25. A 50bps decline in RM was fully offset by a 40/90bps increase in emp cost/other expenses respectively. Consequently, EBITDA margin contracted by 80bps YoY to 15.9%. EBITDA decreased by 1.7% YoY to Rs 4.7bn. PAT decreased by 1.4% YoY to Rs 2.9bn.

### Mixed performance by key subsidiaries

IB posted mixed results; 1) BJN Nepal posted robust topline growth aided by a low base and improved business conditions, with profitability boosted by economies of scale, 2) STP Ltd reported steady topline growth, but profitability was affected by unfavourable product mix due to low traction in admixture, 3) SBL Specialty Coatings Ltd reported a modest topline growth, while was flat on an operating level and 4) Berger Nippon Paint Automotive Coatings Pvt. Ltd. (JV co.) recorded strong topline growth, along with significant profitability improvement aided by gross margin expansion.

#### Key Data

Nifty	23,072
Equity / FV	Rs 1,166mn / Rs 1
Market Cap	Rs 555bn
	USD 6.4bn
52-Week High/Low	Rs 630/ 438
Avg. Volume (no)	10,31,380
Bloom Code	BRGR IN

	Current	Previous
Rating	BUY	Accumulate
Target Price	569	569

#### Change in Estimates

(Rs.bn)	Current	Chg (%)	Chg (%)
	FY25E	FY26E	FY25E
Revenue	114	129	(1.8)
EBITDA	18	21	(5.1)
EBITDA (%)	15.8	16.5	(56)
APAT	11	13	(4.8)
EPS (Rs)	9.4	11.3	(4.8)

#### Valuation (x)

	FY25E	FY26E	FY27E
P/E	50.4	42.0	37.6
EV/EBITDA	30.2	25.0	22.4
ROE (%)	19.4	20.8	20.7
RoACE (%)	17.6	19.1	19.2

#### Q3FY25 Result (Rs Mn)

Particulars	Q3FY25	YoY (%)	QoQ (%)
Revenue	29,751	3.2	7.2
Total Expense	25,033	4.2	7.0
EBITDA	4,717	(1.7)	8.6
Depreciation	888	7.1	(0.2)
EBIT	3,829	(3.6)	10.9
Other Income	202	6.9	(4.1)
Interest	160	(18.5)	(6.0)
EBT	3,872	(2.3)	10.8
Tax	984	0.8	11.5
RPAT	2,960	(1.4)	9.7
APAT	2,960	(1.4)	9.7
		(bps)	(bps)
Gross Margin	41.6	54	(8)
EBITDA (%)	15.9	(80)	21
NPM (%)	9.9	(47)	22
Tax Rate (%)	25.4	78	16
EBIT (%)	12.9	(91)	43

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**Exhibit 1: Actual V/s DART estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	29,751	29,971	(0.7)
EBITDA	4,717	4,790	(1.5)
EBITDA margin %	15.9	16.0	(10bps)
APAT	2,960	3,017	(1.9)

Source: Company, Dolat Capital

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	1,14,214	1,16,257	(1.8)	1,29,421	1,29,461	(0.0)	1,44,183	1,44,186	(0.0)
EBIDTA	18,005	18,978	(5.1)	21,386	21,373	0.1	23,493	23,485	0.0
EBIDTA margin (%)	15.8	16.3	(60bps)	16.5	16.5	-	16.3	16.3	-
PAT	11,006	11,558	(4.8)	13,204	13,193	0.1	14,761	14,760	0.0
EPS (Rs)	9.4	9.9	(4.8)	11.3	11.3	0.1	12.7	12.7	(0.0)

Source: Company, Dolat Capital

We have downward revised our FY25E revenue estimates to factor in delays in price hikes and lower volume growth anticipated in the ensuing quarter. In line, we have reduced our EBITDA and APAT estimates. However, we have maintained our FY26/27E revenue, EBITDA and APAT estimates.

**Exhibit 3: 9MFY25 performance**

Particulars (Rs.mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net Revenue	29,751	28,818	3.2	27,746	7.2	88,407	86,786	1.9
Total Expenditure	25,033	24,018	4.2	23,404	7.0	74,124	71,682	3.4
RM Cost	17,369	16,981	2.3	16,175	7.4	52,129	51,506	1.2
Employee Expenses	1,998	1,815	10.1	2,211	(9.6)	6,132	5,386	13.8
Other Expenses	5,666	5,222	8.5	5,018	12.9	15,863	14,790	7.3
PBIDT (Excl OI)	4,717	4,800	(1.7)	4,342	8.6	14,283	15,104	(5.4)
Other Income	202	189	6.9	211	(4.1)	777	478	62.5
Depreciation	888	829	7.1	890	(0.2)	2,650	2,440	8.6
EBIT	4,032	4,161	(3.1)	3,663	10.1	12,410	13,143	(5.6)
Interest	160	196	(18.5)	170	(6.0)	482	604	(20.3)
PBT	3,872	3,965	(2.3)	3,493	10.8	11,928	12,538	(4.9)
Tax	984	977	0.8	883	11.5	2,986	3,156	(5.4)
Profit After Tax	2,887	2,988	(3.4)	2,610	10.6	8,942	9,382	(4.7)
Minority Interest	(72)	(14)	NA	(89)	NA	(257)	(90)	NA
Adj Net Profit	2,960	3,002	(1.4)	2,699	9.7	9,199	9,472	(2.9)
			<b>bps</b>		<b>bps</b>			<b>bps</b>
Gross Profit (%)	41.6	41.1	50	41.7	(10)	41.0	40.7	38
Employee Expenses (%)	6.7	6.3	40	8.0	(130)	6.9	6.2	73
Other Expenses (%)	19.0	18.1	90	18.1	100	17.9	17.0	90
EBITDA (%)	15.9	16.7	(80)	15.6	20	16.2	17.4	(125)
PAT (%)	9.9	10.4	(50)	9.7	20	10.4	10.9	(51)

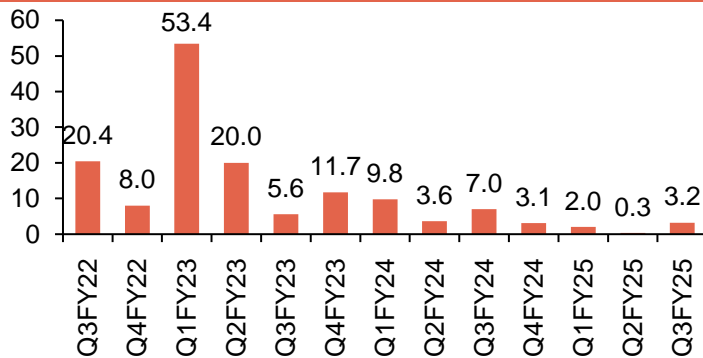
Source: Company, Dolat capital

## Earning call KTAs

- Standalone revenue/volume grew by 0.4/7.4% in Q3FY25. Value growth lagged volume growth due to price cuts taken in Q3 & Q4FY24 and higher sales of high volume/low-value products like texture paints, tile adhesives and admixture, while muted sales in enamels. However, consolidated revenue grew by 3.2% YoY, despite muted consumer sentiments. The company has witnessed a sequential uptick in both volume and value growth. Going ahead, sequential uptick is expected in the decorative segment on account of improved consumer sentiments led by favourable budget announcements and adequate monsoon. Further, the management aspires to achieve double-digit volume growth, going ahead.
- The value growth lagged volume growth due to 1) ~5% price cut taken in Q3 & Q4FY24 and 2) higher sales of high volume/low-value products like texture paints, tile adhesives and admixture, while muted sales in enamels. Going ahead, the volume value gap is expected to bridge due to deterring of price decrease impact in ensuing quarters.
- The entry of Birla Opus has slightly impacted the sales growth of incumbent players. As per management, Birla Opus has ~3.5% of the market as on YTD basis. Additionally, the company believes Q3FY25 was better for Birla Opus than the preceding quarters. However, it expects growth rate impact to be limited to ~3.5% and would not materially impact sales of industry players, with BRGR impact being less than ~3.5%. The company expects growth rate to be impacted by ~2.5-3% due to new entrants, which it aims to restore by internal measures like distribution expansion and focus on urban initiatives.
- BRGR continued to gain market share in Q3FY25, the current market share is ~20%+
- On standalone basis, GM contracted by 50bps YoY to 39.8% due to ~5% price reduction in Q3 and Q4FY24, currency depreciation in Q3FY25 and some inventory impact of monomer price increase. However, the prices have started to cool off. Furthermore, growth was limited in the exterior, premium and luxury categories, which usually performs better in Q3. Additionally, interior luxury posted muted growth. Nonetheless, on consolidated basis, GM expanded by 50bps.
- On standalone basis, EBITDA margin contracted by 50bps to 16.2%, while on sequential basis it has improved led by some operating leverage. The company continues to maintain EBITDA margin guidance in 15-17% range.
- Decorative business posted high-single-digit volume growth, with exterior premium segment performing well. Further, construction chemicals, waterproofing and wood coatings products demonstrated robust performance with double-digit growth.
- The company continued aggressive network expansion. It added 2,000+ retail touch points and installed ~1,800 colorbank tinting machines. Moreover, urban initiatives are progressing well.
- Protective coatings posted strong performance led by infrastructure push by the government. Furthermore, it continued to maintain a leadership position. Going ahead, protective business is expected to deliver better performance on the back of government spending on infrastructure.
- Automotive, General Industrial and Powder Coatings business posted a muted quarter. However, automotive and other industrial businesses are expected to perform better in the ensuing quarters.
- BRGR has maintained strong growth on a 2/3/4 Yr CAGR basis of 9.3/11.8/15.6% in volume terms and 3.6/10.4/16.7% in value terms respectively.
- In international business, BJN Nepal posted robust topline growth aided by a low base and improved business conditions, with profitability boosted by economies of scale. Further, STP Ltd reported steady topline growth, but profitability was affected by unfavourable product mix due to low traction in admixture. In addition, SBL Specialty Coatings Ltd reported a modest topline growth, while was flat on an operating level and Bolix S.A, Poland had a steady topline growth in the quarter. However, profitability was muted on account of some one-off project expenses.

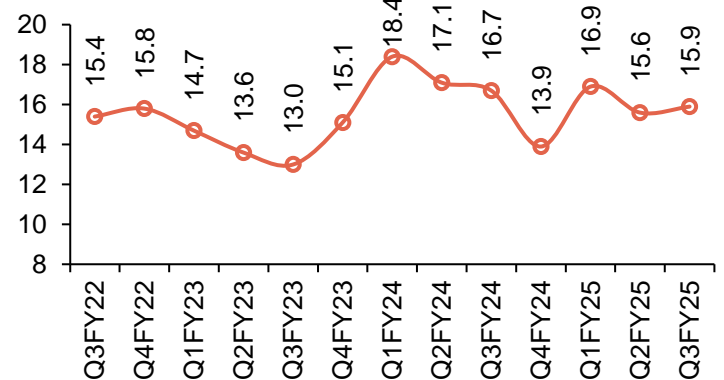
- The JV, Berger Nippon Paint Automotive Coatings Pvt. Ltd. (JV co.) recorded strong topline growth, along with significant profitability improvement aided by gross margin expansion. Further, Berger Becker Coatings posted healthy growth on topline and profitability.
- The inventory levels at most dealer counters have come down, which indicates that improvement in sentiments would lead to an increased stimulus in demand.
- BRGR has not bid for Akzo Nobel as it's not a strategic fit.
- The impact of currency depreciation would be limited to the company's imports (i.e 25-30%), but price adjustments helped mitigate this effect.

**Exhibit 4: Revenue growth (YoY %)**



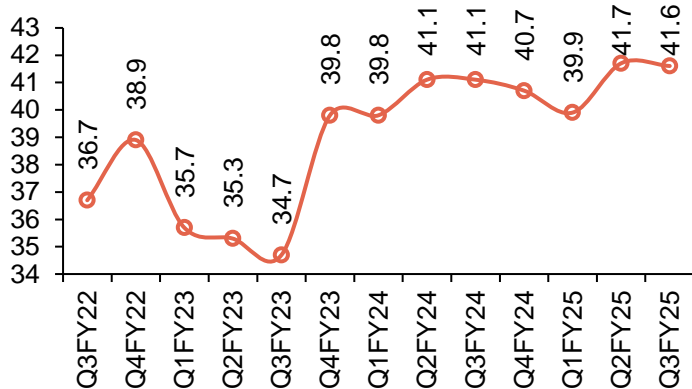
Source: Company, Dolat Capital

**Exhibit 5: EBITDA margin (%)**



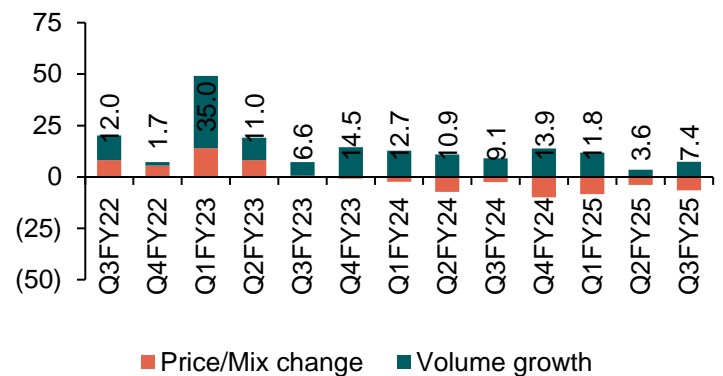
Source: Company, Dolat Capital

**Exhibit 6: Gross margin (%)**



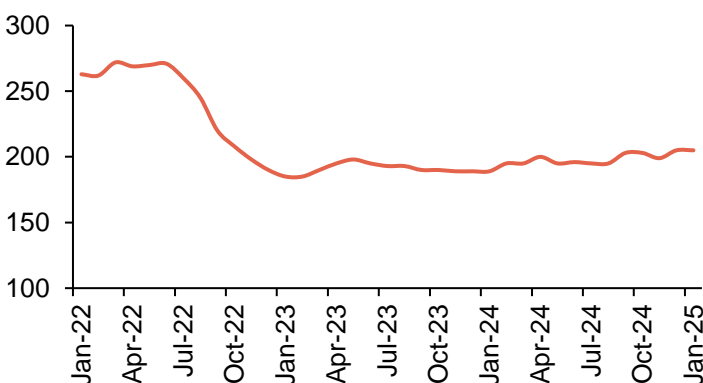
Source: Company, Dolat Capital

**Exhibit 7: Volume and Price Growth (YoY%)**



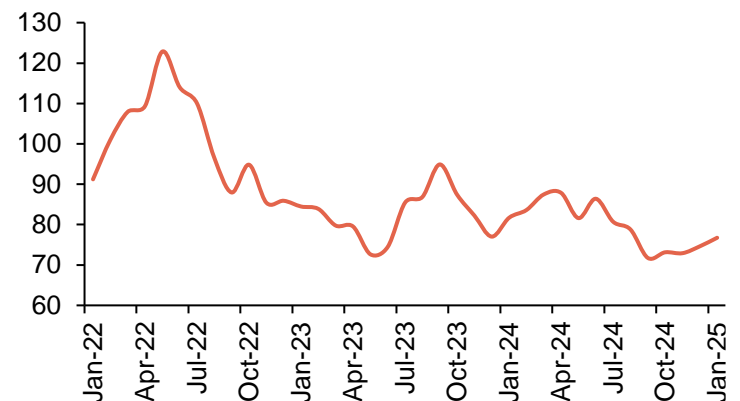
Source: Company, Dolat Capital

**Exhibit 8: Trend in Titanium Dioxide Price (INR/KG)**



Source: Company, Dolat Capital

**Exhibit 9: Trend in Brent Price (USD)**



Source: Company, Dolat Capital

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY24A	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>1,11,989</b>	<b>1,14,214</b>	<b>1,29,421</b>	<b>1,44,183</b>
<b>Total Expense</b>	<b>93,376</b>	<b>96,208</b>	<b>1,08,035</b>	<b>1,20,690</b>
COGS	66,460	67,581	74,027	81,814
Employees Cost	7,130	7,896	10,259	12,095
Other expenses	19,786	20,731	23,748	26,781
<b>EBIDTA</b>	<b>18,613</b>	<b>18,005</b>	<b>21,386</b>	<b>23,493</b>
Depreciation	3,309	3,531	3,661	3,861
<b>EBIT</b>	<b>15,304</b>	<b>14,475</b>	<b>17,725</b>	<b>19,631</b>
Interest	783	648	871	892
Other Income	637	962	886	1,090
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>15,159</b>	<b>14,789</b>	<b>17,739</b>	<b>19,829</b>
Tax	3,871	3,771	4,524	5,056
Minority Interest	0	0	0	0
Profit/Loss share of associates	410	(12)	(12)	(12)
<b>RPAT</b>	<b>11,698</b>	<b>11,006</b>	<b>13,204</b>	<b>14,761</b>
Adjustments	0	0	0	0
<b>APAT</b>	<b>11,698</b>	<b>11,006</b>	<b>13,204</b>	<b>14,761</b>

### Balance Sheet

(Rs Mn)	FY24A	FY25E	FY26E	FY27E
<b>Sources of Funds</b>				
Equity Capital	1,166	1,166	1,166	1,166
Minority Interest	102	114	126	138
Reserves & Surplus	52,624	58,745	66,089	74,299
<b>Net Worth</b>	<b>53,790</b>	<b>59,911</b>	<b>67,255</b>	<b>75,465</b>
Total Debt	7,533	9,535	9,335	9,135
Net Deferred Tax Liability	699	699	699	699
<b>Total Capital Employed</b>	<b>62,124</b>	<b>70,260</b>	<b>77,416</b>	<b>85,438</b>

### Applications of Funds

Net Block	<b>35,013</b>	<b>29,728</b>	<b>29,067</b>	<b>28,206</b>
CWIP	1,873	1,873	1,873	1,873
Investments	1,692	1,692	1,692	1,692
<b>Current Assets, Loans &amp; Advances</b>	<b>44,022</b>	<b>63,485</b>	<b>75,088</b>	<b>87,738</b>
Current Investments	859	859	859	859
Inventories	21,797	23,750	26,203	28,401
Receivables	13,020	13,044	14,604	16,072
Cash and Bank Balances	4,507	20,129	27,720	36,703
Loans and Advances	2,998	2,998	2,998	2,998
Other Current Assets	841	2,705	2,705	2,705
<b>Less: Current Liabilities &amp; Provisions</b>	<b>20,476</b>	<b>26,518</b>	<b>30,305</b>	<b>34,071</b>
Payables	16,792	25,773	29,560	33,326
Other Current Liabilities	3,684	745	745	745
<i>sub total</i>				
Net Current Assets	23,546	36,966	44,784	53,667
<b>Total Assets</b>	<b>62,124</b>	<b>70,260</b>	<b>77,416</b>	<b>85,438</b>

E – Estimates

### Important Ratios

Particulars	FY24A	FY25E	FY26E	FY27E
<b>(A) Margins (%)</b>				
Gross Profit Margin	40.7	40.8	42.8	43.3
EBIDTA Margin	16.6	15.8	16.5	16.3
EBIT Margin	13.7	12.7	13.7	13.6
Tax rate	25.5	25.5	25.5	25.5
Net Profit Margin	10.4	9.6	10.2	10.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	59.3	59.2	57.2	56.7
Employee	6.4	6.9	7.9	8.4
Other	17.7	18.2	18.3	18.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.2	0.1	0.1
Interest Coverage	19.6	22.3	20.3	22.0
Inventory days	71	76	74	72
Debtors days	42	42	41	41
Average Cost of Debt	8.1	7.6	9.2	9.7
Payable days	55	82	83	84
Working Capital days	77	118	126	136
FA T/O	3.2	3.8	4.5	5.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	10.0	9.4	11.3	12.7
CEPS (Rs)	12.9	12.5	14.5	16.0
DPS (Rs)	2.7	4.2	5.0	5.6
Dividend Payout (%)	26.6	44.4	44.4	44.4
BVPS (Rs)	46.1	51.4	57.7	64.7
RoANW (%)	23.7	19.4	20.8	20.7
RoACE (%)	20.2	17.6	19.1	19.2
RoAIC (%)	27.2	26.9	35.5	39.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	476	476	476	476
Mcap (Rs Mn)	5,54,899	5,54,899	5,54,899	5,54,899
EV	5,57,067	5,43,447	5,35,656	5,26,473
MCap/ Sales	5.0	4.9	4.3	3.8
EV/Sales	5.0	4.8	4.1	3.7
P/E	47.4	50.4	42.0	37.6
EV/EBITDA	29.9	30.2	25.0	22.4
P/BV	10.3	9.3	8.3	7.4
Dividend Yield (%)	0.6	0.9	1.1	1.2
<b>(F) Growth Rate (%)</b>				
Revenue	6.0	2.0	13.3	11.4
EBITDA	25.2	(3.3)	18.8	9.8
EBIT	25.1	(5.4)	22.5	10.8
PBT	29.0	(2.4)	19.9	11.8
APAT	36.0	(5.9)	20.0	11.8
EPS	36.0	(5.9)	20.0	11.8

E – Estimates



## Cash Flow

Particulars	FY24A	FY25E	FY26E	FY27E
<b>Profit before tax</b>	<b>15,159</b>	<b>14,789</b>	<b>17,739</b>	<b>19,829</b>
Depreciation & w.o.	3,309	3,531	3,661	3,861
Net Interest Exp	783	648	871	892
Direct taxes paid	(3,486)	(3,771)	(4,524)	(5,056)
Change in Working Capital	302	2,201	(226)	100
Non Cash	838	0	0	0
<b>(A) CF from Operating Activities</b>	<b>16,905</b>	<b>17,398</b>	<b>17,522</b>	<b>19,626</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,705)	1,754	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>14,200</b>	<b>19,152</b>	<b>14,522</b>	<b>16,626</b>
(Inc.)/ Dec. in Investments	(1,451)	0	0	0
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(4,157)</b>	<b>1,754</b>	<b>(3,000)</b>	<b>(3,000)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(7,221)	2,002	(200)	(200)
Interest exp net	(359)	(648)	(871)	(892)
Dividend Paid (Incl. Tax)	(3,109)	(4,884)	(5,860)	(6,551)
Other	0	0	0	0
<b>(C) CF from Financing</b>	<b>(10,689)</b>	<b>(3,530)</b>	<b>(6,931)</b>	<b>(7,643)</b>
Net Change in Cash	2,060	15,622	7,591	8,983
<b>Opening Cash balances</b>	<b>2,447</b>	<b>4,506</b>	<b>20,129</b>	<b>27,720</b>
<b>Closing Cash balances</b>	<b>4,507</b>	<b>20,129</b>	<b>27,720</b>	<b>36,703</b>

E – Estimates

## Notes

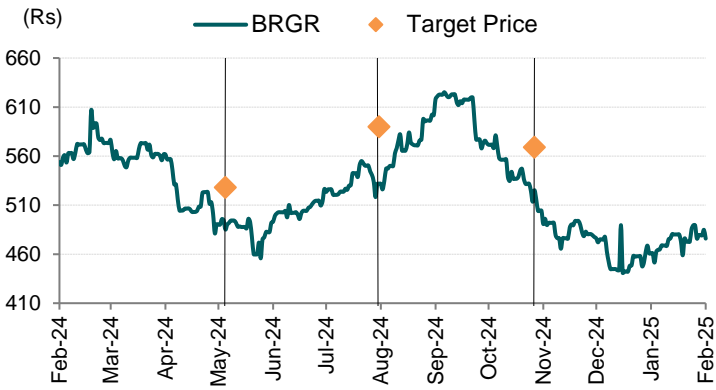
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	3	(3)	(14)
Rel to NIFTY (%)	5	1	(20)

Shareholding Pattern

Particulars	Jun'24	Sep'24	Dec'24
Promoters	75.0	75.0	75.0
MF/Banks/FIs	7.6	8.8	9.6
FIIIs	7.5	7.0	5.9
Public / Others	9.9	9.3	9.5



Month	Rating	TP (Rs.)	Price (Rs.)
May-24	Reduce	528	485
Aug-24	Accumulate	590	532
Nov-24	Accumulate	569	525

\*Price as on recommendation date

Notes



### Dolat Rating Matrix

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Dolat Team

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