

October 6, 2020

## Company Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>550</b>		<b>501</b>	
Sales (Rs. m)	51,931	60,142	51,931	60,142
% Chng.	-	-	-	-
EBITDA (Rs. m)	9,682	11,695	9,682	11,695
% Chng.	-	-	-	-
EPS (Rs.)	11.8	14.5	11.8	14.5
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	49,432	43,578	51,931	60,142
EBITDA (Rs. m)	7,816	7,652	9,682	11,695
Margin (%)	15.8	17.6	18.6	19.4
PAT (Rs. m)	5,354	4,894	6,351	7,795
EPS (Rs.)	9.9	9.1	11.8	14.5
Gr. (%)	14.6	(8.6)	29.8	22.7
DPS (Rs.)	2.6	3.3	3.8	4.5
Yield (%)	0.5	0.7	0.8	0.9
RoE (%)	14.8	12.5	14.9	16.6
RoCE (%)	18.3	16.1	19.4	21.6
EV/Sales (x)	5.1	5.8	4.8	4.1
EV/EBITDA (x)	32.6	32.9	25.7	21.0
PE (x)	48.4	53.0	40.8	33.3
P/BV (x)	6.8	6.4	5.8	5.3

### Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.573 / Rs.294
Sensex / Nifty	38,974 / 11,503
Market Cap	Rs.259bn / \$ 3,537m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.276.93m

### Shareholding Pattern (%)

Promoter's	74.99
Foreign	3.93
Domestic Institution	12.01
Public & Others	9.07
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.0)	27.5	(2.3)
Relative	(0.7)	(7.6)	(4.0)

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## Revival in Auto Paints positive; BUY

### Quick Pointers:

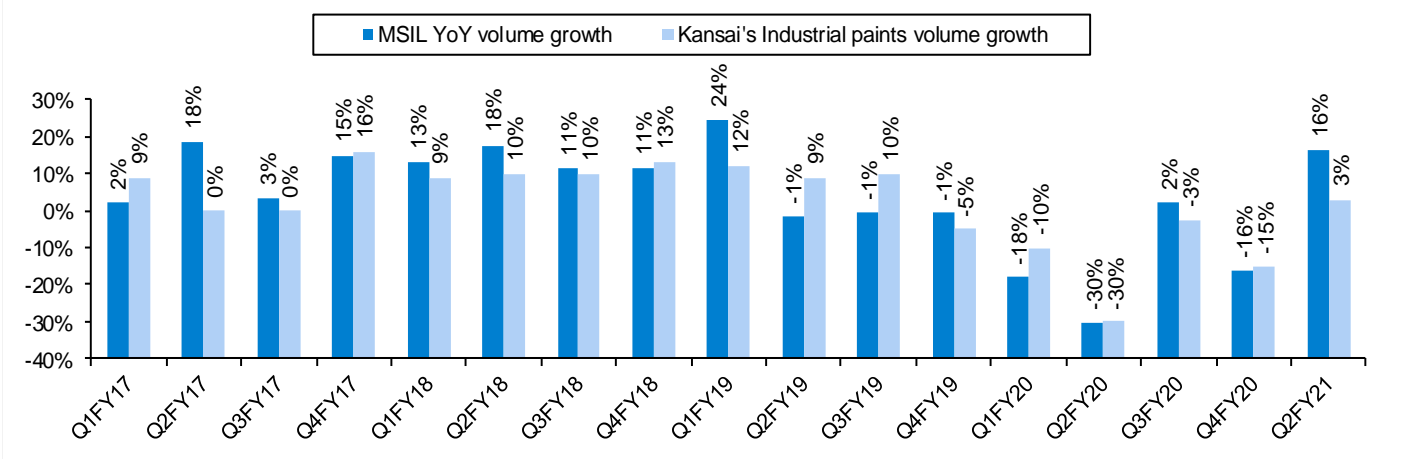
- MSIL's 16.2% wholesale volume growth for 2Q21 augurs well for Kansai as Auto paints are ~28% of total sales
- Strong unlock demand, low base in J&K and stocking ahead of festival season will enable double digit decorative volume growth in 2Q21

**KNPL stands to gain from strong wholesale demand for Auto led by MSIL in 2Q post 7 quarters of decline in industrial paints volumes. We believe low base in Auto paints and gradual recovery in other industrials led by consumer durables will result in positive momentum. Decorative paints are on a solid wicket given strong post unlock demand from tier2/3 cities and low base for Kansai in J&K where it has 60-70% market share.**

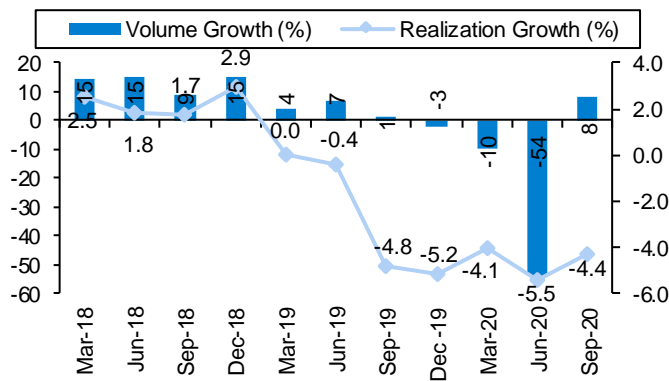
**Nerolac continues to achieve above market growth in decorative paints led by structural drivers like shift towards organized sector, housing push in Tier2/3 cities and shorter painting cycle. Kansai is diversifying its presence in emerging segments like coil coatings, rebar, pipe coatings, floor and Infra coatings. It has entered high growth segments like Adhesives, Construction chemicals and Wood coatings which will diversify sales and boost growth.**

**We estimate 3.5% sales growth and 17.9% EBIDTA growth in 2Q on a low base. We estimate 14.8% PAT CAGR over FY20-23 and 26.3% PAT CAGR over FY21-23. Kansai trades at 33.3x FY23 EPS which is at 30% discount to APNT and 20% lower than life time high. We value the stock at 38x FY23 EPS and retain BUY with a target price of Rs550 (Rs501 based on 38x Sept 22 earlier).**

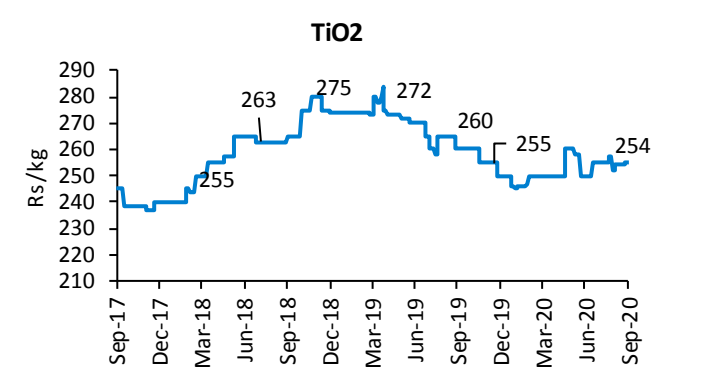
- Auto Paints to ride on 16% 2Q volume growth for Maruti Suzuki:** Kansai drives ~30% of sales from automotive paints and MSIL accounts for ~70-75% of the total sales. Kansai's industrial volume growth mirrors the trend of MSIL sales, although the declines and growth are lower due to presence of non MSIL auto and Industrial paints. MSIL has reported 16% wholesale volume growth in 2Q21 which will enable positive volume growth for Industrial paints after 7 quarters of decline.
- Decorative volumes to grow in double digits:** kansai's decorative paints business is expected to benefit from strong post unlock demand in tier2/3 cities and low base of 2Q in J&K (60-70% market share). Although late Diwali and Adhik mass would impact retail sales, stocking ahead of the festival season will ensure double digit volume growth in 2Q21.
- Other Industrials yet to recover, although worst seems over:** Kansai is diversifying industrial paints (30% of Industrial Paints, 12-15% of total sales) and entered niche segments like coil coatings, bridges and pipe coatings, rebar coatings, floor coatings, Anti Carbonation coatings, Polysiloxane Coatings and C5 Fluoro Polymer coatings for Metro Projects and Railways. Although other Industrial paints will take time to recover, strong growth in Consumer durables and general industrial coatings augurs well for demand in coming quarters.

**Exhibit 1: Kansai's Industrial Paints volume (40% of sales) move in line with MSIL sales**


Source: Company, PL (1Q nos not considered as being exceptional event)

**Exhibit 2: We expect 8% growth in overall volumes in 2Q**


Source: Company, PL

**Exhibit 3: TiO2 prices remain favorable, down 4.2% YoY**


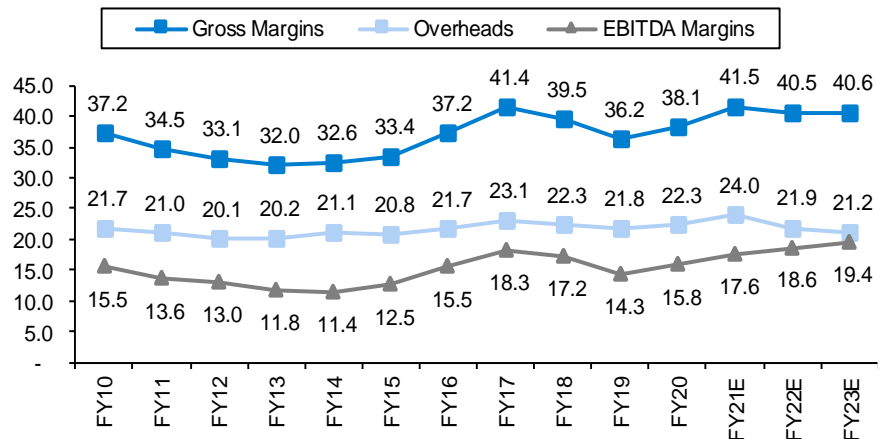
Source: Company, PL

**Exhibit 4: We expect 3.5% topline growth, however Adj PAT to decline 13.6% mainly due to higher tax rate**

Particular	Q2FY21E	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	Remark
Sales	12,870	12,435	3.5	5,981	115.2	We estimate 8.4% volume growth led by double digit growth in decorative paints and strong rebound in Auto Paints and powder coatings. We estimate 240bps margin expansion, given favourable input costs. Watch out for commentary in decorative paints and demand sustenance in Auto paints.
EBITDA	2,510	2,129	17.9	805	211.7	
Margin (%)	19.5	17.1		13.5		
PBT	2,235	1,870	19.5	553	304.2	
Adj. PAT	1,672	1,934	(13.6)	427	291.4	
Volume Growth (%)	8.4	1.0		(54.0)		
Gross Margin (%)	40.0	38.4		41.6		

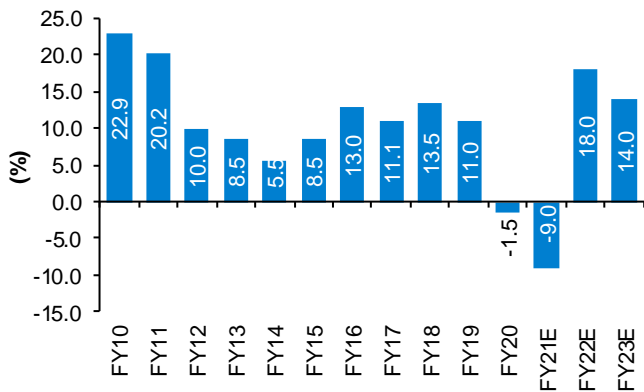
Source: Company, PL

Exhibit 5: EBITDA margins to expand 360bps over next 3 years



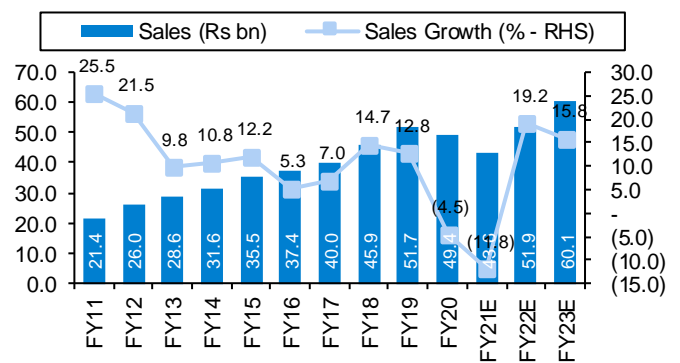
Source: Company, PL

Exhibit 6: Volumes likely to grow at 18%/14% in FY22E/23E



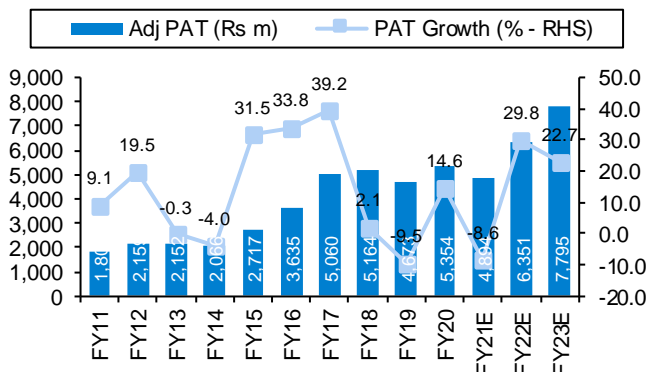
Source: Company, PL

Exhibit 7: COVID and Automotive paints drag sales



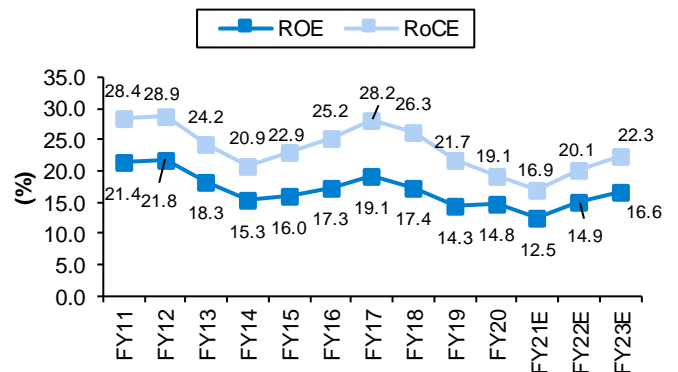
Source: Company, PL

Exhibit 8: PAT to grow at 3-yr CAGR of 14.6%



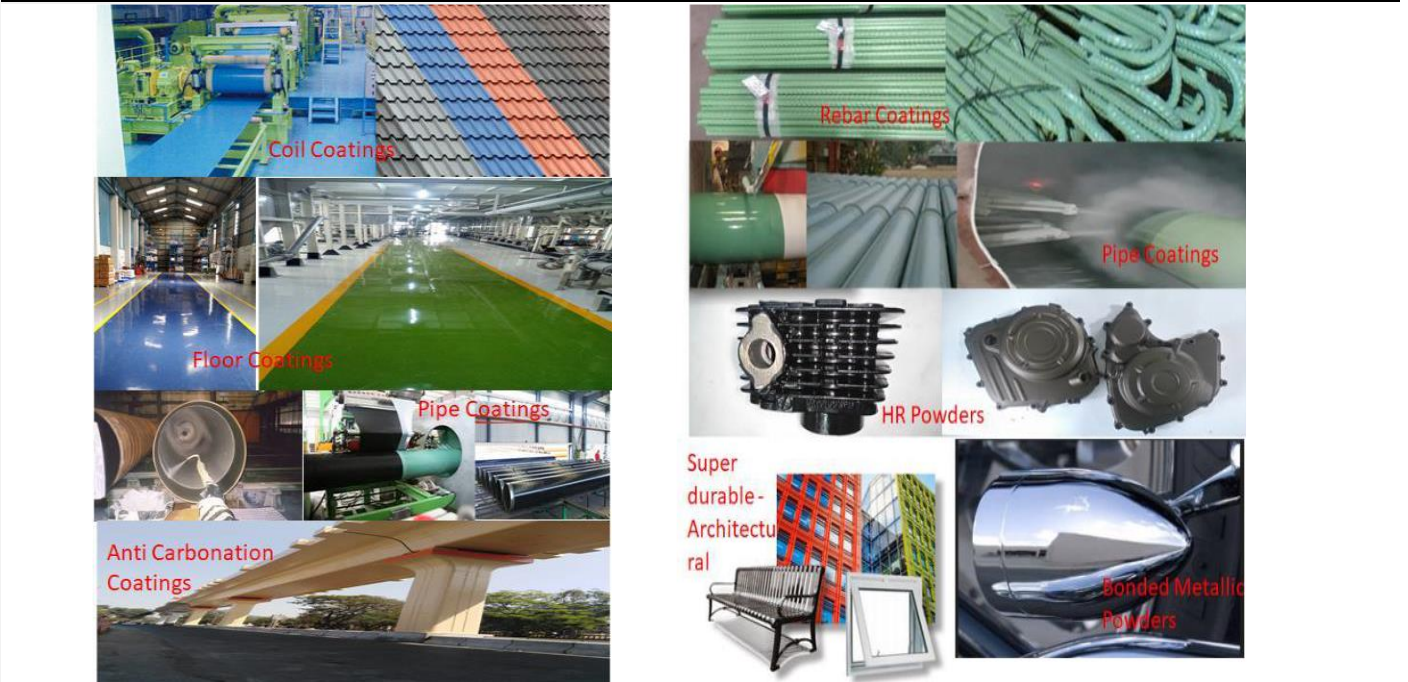
Source: Company, PL

Exhibit 9: Robust return ratios



Source: Company, PL

Exhibit 10: KNPL has forayed into emerging segments like Rebar Coatings, Pipe coatings, floor coatings etc.



Source: Company, PL

Exhibit 11: Nerolac Perma JV enabled entry in Adhesives and Construction aid



Source: Company, PL

Exhibit 12: Foray into new segments



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>49,432</b>	<b>43,578</b>	<b>51,931</b>	<b>60,142</b>
YoY gr. (%)	(4.5)	(11.8)	19.2	15.8
Cost of Goods Sold	30,576	25,489	30,876	35,727
Gross Profit	18,856	18,089	21,055	24,416
Margin (%)	38.1	41.5	40.5	40.6
Employee Cost	2,694	2,658	2,908	3,188
Other Expenses	8,346	4,358	4,622	5,232
<b>EBITDA</b>	<b>7,816</b>	<b>7,652</b>	<b>9,682</b>	<b>11,695</b>
YoY gr. (%)	5.3	(2.1)	26.5	20.8
Margin (%)	15.8	17.6	18.6	19.4
Depreciation and Amortization	1,199	1,334	1,436	1,555
<b>EBIT</b>	<b>6,617</b>	<b>6,318</b>	<b>8,246</b>	<b>10,141</b>
Margin (%)	13.4	14.5	15.9	16.9
Net Interest	50	90	79	83
Other Income	269	313	320	359
<b>Profit Before Tax</b>	<b>6,836</b>	<b>6,541</b>	<b>8,487</b>	<b>10,417</b>
Margin (%)	13.8	15.0	16.3	17.3
Total Tax	1,482	1,646	2,136	2,622
Effective tax rate (%)	21.7	25.2	25.2	25.2
<b>Profit after tax</b>	<b>5,354</b>	<b>4,894</b>	<b>6,351</b>	<b>7,795</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>5,354</b>	<b>4,894</b>	<b>6,351</b>	<b>7,795</b>
YoY gr. (%)	14.6	(8.6)	29.8	22.7
Margin (%)	10.8	11.2	12.2	13.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,354</b>	<b>4,894</b>	<b>6,351</b>	<b>7,795</b>
YoY gr. (%)	14.6	(8.6)	29.8	22.7
Margin (%)	10.8	11.2	12.2	13.0
Other Comprehensive Income	(10)	-	-	-
Total Comprehensive Income	5,344	4,894	6,351	7,795
<b>Equity Shares O/s (m)</b>	<b>539</b>	<b>539</b>	<b>539</b>	<b>539</b>
<b>EPS (Rs)</b>	<b>9.9</b>	<b>9.1</b>	<b>11.8</b>	<b>14.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>24,896</b>	<b>27,050</b>	<b>29,560</b>	<b>32,070</b>
Tangibles	24,707	26,851	29,351	31,851
Intangibles	188	198	208	218
<b>Acc: Dep / Amortization</b>	<b>8,920</b>	<b>10,034</b>	<b>11,249</b>	<b>12,572</b>
Tangibles	8,759	9,866	11,073	12,387
Intangibles	161	168	176	185
<b>Net fixed assets</b>	<b>15,976</b>	<b>17,015</b>	<b>18,310</b>	<b>19,497</b>
Tangibles	15,948	16,985	18,278	19,464
Intangibles	28	30	32	33
Capital Work In Progress	1,644	2,000	2,000	2,000
Goodwill	-	-	-	-
Non-Current Investments	1,648	1,660	1,673	1,687
Net Deferred tax assets	(850)	(892)	(937)	(984)
Other Non-Current Assets	4,023	2,309	2,470	2,629
<b>Current Assets</b>				
Investments	3,051	3,109	3,168	3,228
Inventories	9,301	11,246	11,246	11,246
Trade receivables	6,745	5,937	7,078	8,199
Cash & Bank Balance	1,663	4,376	7,059	10,844
Other Current Assets	1,831	1,307	1,558	1,804
<b>Total Assets</b>	<b>45,924</b>	<b>49,003</b>	<b>54,614</b>	<b>61,196</b>
<b>Equity</b>				
Equity Share Capital	539	539	539	539
Other Equity	37,330	40,081	43,963	48,834
<b>Total Networkth</b>	<b>37,869</b>	<b>40,619</b>	<b>44,502</b>	<b>49,373</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	50	50	50
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,195	5,608	7,101	8,574
Other current liabilities	1,521	1,344	1,534	1,724
<b>Total Equity &amp; Liabilities</b>	<b>45,925</b>	<b>49,004</b>	<b>54,614</b>	<b>61,196</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,836	6,541	8,487	10,417
Add. Depreciation	1,199	1,334	1,436	1,555
Add. Interest	50	90	79	83
Less Financial Other Income	269	313	320	359
Add. Other	150	1,744	(128)	(127)
Op. profit before WC changes	8,235	9,709	9,873	11,928
Net Changes-WC	(1,177)	(436)	225	227
Direct tax	(1,482)	(1,646)	(2,136)	(2,622)
<b>Net cash from Op. activities</b>	<b>5,576</b>	<b>7,626</b>	<b>7,962</b>	<b>9,533</b>
Capital expenditures	(2,513)	(2,729)	(2,731)	(2,742)
Interest / Dividend Income	-	-	-	-
Others	(441)	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(2,954)</b>	<b>(2,729)</b>	<b>(2,731)</b>	<b>(2,742)</b>
Issue of share cap. / premium	0	-	-	-
Debt changes	(34)	50	-	-
Dividend paid	(1,689)	(2,144)	(2,469)	(2,924)
Interest paid	(50)	(90)	(79)	(83)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,773)</b>	<b>(2,184)</b>	<b>(2,548)</b>	<b>(3,006)</b>
<b>Net change in cash</b>	<b>849</b>	<b>2,713</b>	<b>2,684</b>	<b>3,785</b>
Free Cash Flow	3,063	4,897	5,231	6,792

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	9.9	9.1	11.8	14.5
CEPS	12.2	11.6	14.4	17.3
BVPS	70.3	75.4	82.6	91.6
FCF	5.7	9.1	9.7	12.6
DPS	2.6	3.3	3.8	4.5
<b>Return Ratio(%)</b>				
RoCE	18.3	16.1	19.4	21.6
ROIC	16.5	14.9	19.1	23.1
RoE	14.8	12.5	14.9	16.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	80	97	79	66
<b>Valuation(x)</b>				
PER	48.4	53.0	40.8	33.3
P/B	6.8	6.4	5.8	5.3
P/CEPS	12.2	11.6	14.4	17.3
EV/EBITDA	32.6	32.9	25.7	21.0
EV/Sales	5.1	5.8	4.8	4.1
Dividend Yield (%)	0.5	0.7	0.8	0.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

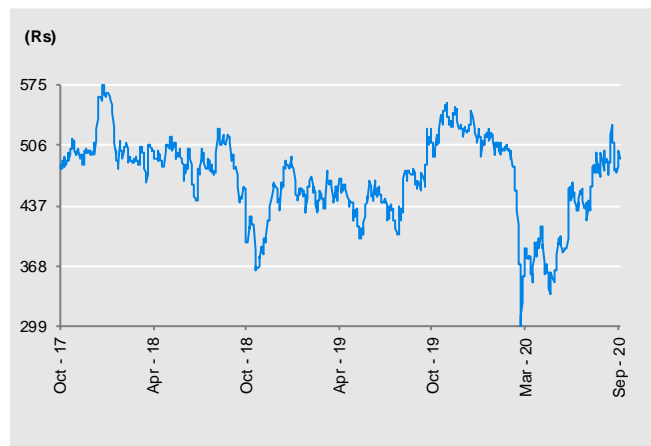
Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21E
<b>Net Revenue</b>	<b>12,481</b>	<b>9,880</b>	<b>5,981</b>	<b>12,870</b>
YoY gr. (%)	(7.6)	(14.3)	(59.1)	3.5
Raw Material Expenses	7,801	6,078	3,490	7,722
Gross Profit	4,681	3,802	2,491	5,148
Margin (%)	37.5	38.5	41.6	40.0
<b>EBITDA</b>	<b>1,919</b>	<b>1,278</b>	<b>805</b>	<b>2,510</b>
YoY gr. (%)	8.4	(14.6)	(67.7)	17.9
Margin (%)	15.4	12.9	13.5	19.5
Depreciation / Depletion	314	320	318	330
<b>EBIT</b>	<b>1,605</b>	<b>958</b>	<b>487</b>	<b>2,180</b>
Margin (%)	12.9	9.7	8.1	16.9
Net Interest	12	13	13	20
Other Income	124	40	79	75
<b>Profit before Tax</b>	<b>1,717</b>	<b>985</b>	<b>553</b>	<b>2,235</b>
Margin (%)	13.8	10.0	9.2	17.4
Total Tax	490	270	126	563
Effective tax rate (%)	28.6	27.4	22.8	25.2
<b>Profit after Tax</b>	<b>1,227</b>	<b>715</b>	<b>427</b>	<b>1,672</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,227</b>	<b>715</b>	<b>427</b>	<b>1,672</b>
YoY gr. (%)	8.8	(23.0)	(71.1)	(13.6)
Margin (%)	9.8	7.2	7.1	13.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,227</b>	<b>715</b>	<b>427</b>	<b>1,672</b>
YoY gr. (%)	8.8	(23.0)	(71.1)	(13.6)
Margin (%)	9.8	7.2	7.1	13.0
Other Comprehensive Income	(4)	3	(5)	-
<b>Total Comprehensive Income</b>	<b>1,222</b>	<b>717</b>	<b>423</b>	<b>1,672</b>
Avg. Shares O/s (m)	539	539	539	539
<b>EPS (Rs)</b>	<b>2.3</b>	<b>1.3</b>	<b>0.8</b>	<b>3.1</b>

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume Gr %	(1.5)	(9.0)	18.0	14.0
Gross Margins %	38.1	41.5	40.5	40.6

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Aug-20	BUY	501	443
2	08-Jul-20	BUY	529	444
3	18-Jun-20	BUY	487	389
4	08-May-20	BUY	486	360
5	13-Apr-20	BUY	486	379
6	31-Jan-20	Accumulate	545	499
7	03-Jan-20	Accumulate	546	513
8	01-Nov-19	Accumulate	548	539

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Hold	2,055	2,163
3	Bajaj Electricals	BUY	500	436
4	Britannia Industries	BUY	4,279	3,830
5	Colgate Palmolive	Reduce	1,344	1,448
6	Crompton Greaves Consumer Electricals	BUY	308	260
7	Dabur India	Hold	469	494
8	Emami	BUY	419	257
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	524	595
11	Hindustan Unilever	Hold	2,304	2,249
12	ITC	BUY	262	200
13	Jubilant FoodWorks	Hold	2,255	2,251
14	Kansai Nerolac Paints	BUY	501	443
15	Marico	Hold	355	350
16	Nestle India	Reduce	14,089	17,095
17	Pidilite Industries	Hold	1,415	1,378
18	Titan Company	Hold	1,057	1,108
19	Voltas	Accumulate	660	629

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## ANALYST CERTIFICATION

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