



### Kansai Nerolac Q1FY22 Standalone results were better than expectations QoQ revenue drop only 2%

- **Revenue** increased by 118% YoY to Rs 13011.9mn (-2.2% QoQ)
- **EBIDTA** grew by 132.4% YoY to Rs 1871.2mn (-8% QoQ)
- **EBIDTA margins** 14.4% v/s 13.5% YoY and 15.3% QoQ
- **PAT(adj)** increased 177.8% YoY to Rs 1186.5mn (-7.2% QoQ)

#### Other Details

- **Raw Mat to % to Revenues** stood at 65.8% v/s 58.4% YoY and 65.6% QoQ (*price increase taken in decorative + industrial paints*)
- **Employee cost** rose by 8.2% YoY to Rs 698mn
- **Other Expenses as a % to Revenue** stood 14.5% v/s 17.4% YoY and 14.2% QoQ
- **PBT** increased by 186% YoY to Rs 1585.1mn (-7.4% QoQ) {Int cost +91% YoY to Rs 25.2mn}

#### Outlook

India has a long way to go in terms of per-capita paint consumption which is @ 4kg v/s 15-20kg globally. Rural demand too is expected to be on an improving trend.

Automotive production is likely to speed up on account of pent-up demand and improvement in semi-conductor availability.

Paint companies are looking to increase prices across segments whether it be decorative, auto-OEM or industrial which will help stabilize margins going forward.

#### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Net sales	54,243	52,800	50,743	64,491	70,182
% Growth	16	(2.7)	(3.9)	27.1	8.8
EBIDTA	7,525	8,045	8,633	9,627	11,278
Margins	14	15	17	15	16
PAT	4,527.5	5,210.1	5,297.4	6,119.5	7,332.2
growth (%)	(12)	15.1	1.7	15.5	19.8
EPS	8.4	9.7	9.8	11.4	13.6
P/E (x)	74.8	65.0	63.9	55.3	46.2
P/B (x)	9.9	9.0	8.4	7.6	6.9
EV/EBITDA (x)	44.6	41.5	38.3	34.3	29.1
ROCE (%)	18.4	16.8	16.5	17.0	18.5
RoE (%)	13.3	13.9	13.1	13.8	15.0

Source: Dalal and Broacha

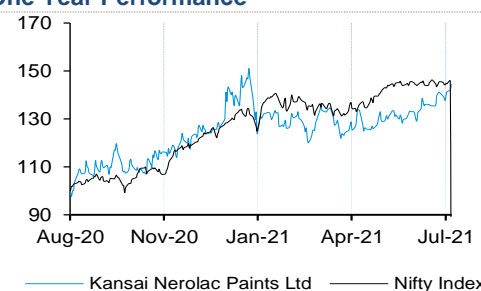
Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>680</b>	<b>8</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>628</b>
Market Cap (Rs.Bn)	(Rs Bn)	339
Market Cap (US\$ Mn)	(US\$ Mn)	4553
Face Value	Rs	1
52 Weeks High/Low	Rs	680/420
Average Daily Volume	('000)	26
BSE Code		500165
Bloomberg		KNPL:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	74.99	74.99
Public	25.01	25.01
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

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## Conference Call Highlights

- **1. Decorative Paints (~55% Revenue)**
  - Demand impacted towards the end of April to May due to lockdowns
  - Urban growth better than Rural || Emulsion recorded higher growth
  - Value growth in decorative was higher than volume as emulsion share increased.
  - Chronological order of region wise recovery was North, East, South and west.
  - price increase aggression in lower-end such as putti was there across industry
  - Dealer strength @ 26000 (no major expansion last year) || tinting machine penetration @ 75-80%
- **2. Auto Paints (~33% of Revenue)**
  - was impacted on account of lower 4W production due to shortage of semi-conductor || 2W demand remained sluggish || CV and tractor recorded good sales.
  - these are more technology driven products which improve OEM's productivity and better pricing for Kansai
- **3. Industrial Paints (~12% of Revenue)**
  - price increase is easier in Non-Auto industrial paints which include high performance coatings and powder coatings
- **4. Others KTA's**
  - New product contribution stood at 10% of revenue sales || margins are similar to paints || Construction chemicals range complete with Perma brand || 50% of the dealer network can be utilized for new product
  - Ad-Spends will not go back to FY19 levels since the goal of gaining mind share is completed
  - Capacity Utilization @ 60% in June Raw Mat prices witnessed further inflation in current quarter || Price increase taken
  - **Apps launched:**
    1. Pragati for Influencers
    2. Saathi for dealersmore from a marketing approach point of view but has helped saving fixed cost

## Quarterly Financials

Particulars (Rs Mns)	Q1FY22	Q1FY21	Growth	Q4FY21	Growth
Net Sales (excluding Excise Duty & GST)	12952.8	5904.3	119.4%	13210.9	-2.0%
Other Operating Income	59.1	76.2	-22.4%	93.9	-37.1%
<b>TOTAL Operating income</b>	<b>13011.9</b>	<b>5980.5</b>	<b>117.6%</b>	<b>13304.8</b>	<b>-2.2%</b>
Cost of material consumed	7590.9	2300.6	230.0%	8818.9	-13.9%
Purchase of stock in trade	833.3	434.7	91.7%	860.4	-3.1%
Changes of inventories	136.2	754.4	-81.9%	-950.8	-114.3%
<b>Total raw material consumed</b>	<b>8560.4</b>	<b>3489.7</b>	<b>145.3%</b>	<b>8728.5</b>	<b>-1.9%</b>
<b>% OF OPERATING INCOME</b>	<b>65.8%</b>	<b>58.4%</b>		<b>65.6%</b>	
Employee expenses	698.2	645	8.2%	658.7	6.0%
<b>% OF OPERATING INCOME</b>	<b>5.4%</b>	<b>10.8%</b>		<b>5.0%</b>	
Other expenses	1882.1	1040.7	80.8%	1884	-0.1%
<b>% OF OPERATING INCOME</b>	<b>14.5%</b>	<b>17.4%</b>		<b>14.2%</b>	
<b>TOTAL EXPENDITURE</b>	<b>11140.7</b>	<b>5175.4</b>	<b>115.3%</b>	<b>11271.2</b>	<b>-1.2%</b>
Other Income	96.7	79.3	21.9%	123.8	-21.9%
EBITDA	1967.9	884.4	122.5%	2157.4	-8.8%
<b>EBIDTA (Excl Other Income)</b>	<b>1871.2</b>	<b>805.1</b>	<b>132.4%</b>	<b>2033.6</b>	<b>-8.0%</b>
<b>EBIDTA MARGINS</b>	<b>14.4%</b>	<b>13.5%</b>		<b>15.3%</b>	
Depreciation	357.6	318.3	12.3%	404.7	-11.6%
Interest	25.2	13.2	90.9%	40.2	-37.3%
<b>PBT</b>	<b>1585.1</b>	<b>552.9</b>	<b>186.7%</b>	<b>1712.5</b>	<b>-7.4%</b>
<b>Exceptional Items</b>	<b>1.866884</b>				
TAX	398.6	125.8	216.9%	434.5	-8.3%
TAX RATE	25.1%	22.8%		25.4%	
Net Profit Reported	1188.367	427.1	178.2%	1278	-7.0%
<b>PAT Adjusted</b>	<b>1186.5</b>	<b>427.1</b>	<b>177.8%</b>	<b>1278</b>	<b>-7.2%</b>
<b>NPM</b>	<b>9.1%</b>	<b>7.0%</b>		<b>9.5%</b>	
Equity	538.9	538.9	0.0%	538.9	0.0%
<b>EPS on Adjusted PAT</b>	<b>2.20</b>	<b>0.79</b>	<b>177.8%</b>	<b>2.37</b>	<b>-7.2%</b>

Value growth higher than volume as emulsion share was higher

Further Price increase to follow to cover-up commodity inflation

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## Outlook and Valuations

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Kansai has an all-round portfolio in paints with leadership in Auto Paints

As and when the economy will revive Kansai would be one of the big-beneficiary as all its segments would bounce back.

**Valuations:** We have reworked our numbers and Kansai Nerolac @ Rs 628 trades at 55x FY22e EPS of Rs 11.4 and 46.2x FY23e EPS of Rs 13.6. We maintain “Buy on Dips” strategy on the stock with a target price of Rs 680 (*50x FY23e EPS of Rs 13.6*)

# Financial

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	54,243.2	52,799.7	50,742.5	64,490.6	70,182.0	Net Profit	4,527.5	5,210.1	5,297.4	6,119.5	7,332.2
Raw Materials	(34,617.6)	(32,586.1)	(31,465.3)	(41,526.3)	(43,512.8)	Add: Dep. & Amort.	1,062.8	1,421.2	1,653.0	1,815.3	1,931.2
Employee Cost	(2,834.1)	(3,103.7)	(3,046.8)	(3,321.0)	(3,653.1)	<b>Cash profits (Inc)/Dec in</b>	<b>5,590.3</b>	<b>6,631.3</b>	<b>6,950.4</b>	<b>7,934.7</b>	<b>9,263.4</b>
Other Expenses	(9,266.3)	(9,065.3)	(7,597.6)	(10,016.3)	(11,738.3)	Sundry debtors	(529.2)	(314.2)	(1,693.7)	(1,037.7)	25.8
<b>Operating Profit</b>	<b>7,525.2</b>	<b>8,044.6</b>	<b>8,632.8</b>	<b>9,626.9</b>	<b>11,277.8</b>	Inventories	(2,818.8)	1,027.1	(1,895.8)	(2,155.6)	675.4
Depreciation	(1,062.8)	(1,421.2)	(1,653.0)	(1,815.3)	(1,931.2)	Loans/advances	(2,448.2)	623.0	483.3	(692.3)	(803.6)
PBIT	6,462.4	6,623.4	6,979.8	7,811.7	9,346.6	Current Liab and Provisions	(361.9)	(336.7)	3,481.6	1,344.4	(1,685.3)
Other income	605.2	255.3	382.1	580.0	679.8	Change in working capital	(6,158.1)	999.2	375.4	(2,541.3)	(1,787.7)
Interest	(99.7)	(209.1)	(237.4)	(237.4)	(237.4)	<b>CF from Oper. activities</b>	<b>(567.8)</b>	<b>7,630.5</b>	<b>7,325.8</b>	<b>5,393.5</b>	<b>7,475.6</b>
PBT	6,967.9	6,669.6	7,124.5	8,154.2	9,789.0	<b>CF from Inv. activities</b>	<b>(1,820.3)</b>	<b>(5,456.2)</b>	<b>(5,719.1)</b>	<b>(2,800.0)</b>	<b>(2,000.0)</b>
Exceptionals	-	-	-	-	-	<b>CF from Fin. activities</b>	<b>(285.9)</b>	<b>(1,216.1)</b>	<b>(2,281.7)</b>	<b>(2,376.1)</b>	<b>(2,832.9)</b>
Profit before tax (post exceptional)	6,967.9	6,669.6	7,124.5	8,154.2	9,789.0	<b>Cash generated/(utilised)</b>	<b>(2,674.0)</b>	<b>958.2</b>	<b>(675.0)</b>	<b>217.4</b>	<b>2,642.7</b>
Provision for tax	(2,491.3)	(1,511.8)	(1,867.3)	(2,054.9)	(2,466.8)	Cash at start of the year	3,636.2	962.1	1,920.3	1,245.3	1,462.7
<b>Reported PAT</b>	<b>4,476.6</b>	<b>5,157.8</b>	<b>5,257.2</b>	<b>6,099.4</b>	<b>7,322.1</b>	Cash at end of the year	962.1	1,920.3	1,245.3	1,462.7	4,105.4
MI	50.9	52.3	40.2	20.1	10.1						
<b>Net Profit</b>	<b>4,527.5</b>	<b>5,210.1</b>	<b>5,297.4</b>	<b>6,119.5</b>	<b>7,332.2</b>						
Adjusted Profit ( excl Exc	4,527.5	5,210.1	5,297.4	6,119.5	7,332.2						

Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	Ratios	FY19	FY20	FY21	FY22E	FY23E
Equity capital	538.9	538.9	538.9	538.9	538.9	OPM	13.9	15.2	17.0	14.9	16.1
Reserves	33,624.4	37,064.1	39,990.1	43,753.6	48,262.9	NPM	8.3	9.8	10.4	9.4	10.3
<b>Net worth</b>	<b>34,163.3</b>	<b>37,603.0</b>	<b>40,529.0</b>	<b>44,292.5</b>	<b>48,801.8</b>	Tax rate	(35.8)	(22.7)	(26.2)	(25.2)	(25.2)
MI	200.9	216.8	362.8	342.7	332.7	<b>Growth Ratios (%)</b>					
<b>Non Current Liabilities</b>	<b>1,310.4</b>	<b>1,844.0</b>	<b>2,036.5</b>	<b>2,036.7</b>	<b>2,037.0</b>	Net Sales	16.4	(2.7)	(3.9)	27.1	8.8
<b>Current Liabilities</b>	<b>9,504.3</b>	<b>9,172.4</b>	<b>12,405.2</b>	<b>13,749.3</b>	<b>12,063.8</b>	Operating Profit	(5.2)	6.9	7.3	11.5	17.1
<b>Equities and Liabilities</b>	<b>45,178.9</b>	<b>48,836.2</b>	<b>55,333.5</b>	<b>60,421.3</b>	<b>63,235.2</b>	PBIT	(9.8)	2.5	5.4	11.9	19.6
<b>Non Current Assets</b>	<b>17,965.4</b>	<b>20,914.6</b>	<b>21,348.3</b>	<b>22,347.9</b>	<b>22,441.2</b>	PAT	(12.0)	15.1	1.7	15.5	19.8
Fixed Assets	17,618.4	19,231.7	19,385.5	20,370.2	20,439.1	<b>Per Share (Rs.)</b>					
Right to use of Assets	-	1,325.4	1,607.1	1,607.1	1,607.1	Net Earnings (EPS)	8.4	9.7	9.8	11.4	13.6
Goodwill	195.8	197.8	197.8	197.8	197.8	Cash Earnings (CPS)	10.4	12.3	12.9	14.7	17.2
Non Current Investments	9.6	8.5	9.5	9.5	9.5	Dividend	2.6	3.2	5.3	4.4	5.2
Deferred Tax Asset	-	-	-	-	-	Book Value	63.4	69.8	75.2	82.2	90.6
Long Term Loans and Advances	141.6	151.2	148.4	163.2	187.7	Free Cash Flow	(4.4)	4.0	3.0	4.8	10.2
<b>Current Assets</b>	<b>27,213.5</b>	<b>27,921.6</b>	<b>33,985.2</b>	<b>38,073.4</b>	<b>40,794.0</b>	<b>Valuation Ratios</b>					
<b>Current investments</b>	<b>1,955.6</b>	<b>3,051.0</b>	<b>6,680.6</b>	<b>6,680.6</b>	<b>6,680.6</b>	P/E(x)	<b>74.8</b>	<b>65.0</b>	<b>63.9</b>	<b>55.3</b>	<b>46.2</b>
Inventories	11,110.6	10,083.5	11,979.3	14,134.9	13,459.6	P/B(x)	9.9	9.0	8.4	7.6	6.9
Trade Receivables	7,555.6	7,869.8	9,563.5	10,601.2	10,575.4	EV/EBIDTA(x)	44.6	41.5	38.3	34.3	29.1
Cash and Bank Balances	962.1	1,920.3	1,245.3	1,462.7	4,105.4	Div. Yield(%)	0.4	0.5	0.8	0.7	0.8
Short Term Loans and Advances	52.2	48.7	67.8	78.0	89.7	<b>FCF Yield(%)</b>	<b>(0.7)</b>	<b>0.6</b>	<b>0.5</b>	<b>0.8</b>	<b>1.6</b>
Other Current Assets	5,577.4	4,948.3	4,448.7	5,116.0	5,883.4	<b>Return Ratios (%)</b>					
<b>Total Assets</b>	<b>45,178.9</b>	<b>48,836.2</b>	<b>55,333.5</b>	<b>60,421.3</b>	<b>63,235.2</b>	ROE	13%	14%	13%	14%	15%
						ROCE	18%	17%	17%	17%	19%

Source: Dalal &amp; Broacha Research, Company

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