

Kansai Nerolac Q2FY22 Standalone results were weaker than estimates, RM to revenue at 40 quarter high

- **Revenue** increased by 16.2% YoY to Rs 15207.4mn (+15.1% QoQ)
- **EBIDTA** fell by 37.3% YoY to Rs 1646.7mn (-13.2% QoQ)
- **EBIDTA margins** 10.8% v/s 20% YoY and 14.4% QoQ
- **PAT(adj)** fell by 42.1% YoY to Rs 985.4mn (-17.1% QoQ)

Other Details

- **Raw Mat to % to Revenues** stood at 71.1% v/s 60.7% YoY and 65.7% QoQ (*inflationary pressure more severe industrial vs decorative*) || Industrial is 45% of Kansai Revenue
- **Employee cost** rose by 4.5% YoY to Rs 693.4mn (-3.8% YoY)
- **Other Expenses as a % to Revenue** stood 13.5% v/s 14.2% YoY and 14.5% QoQ
- **PBT** decreased 43.3% YoY to Rs 1306mn (-17.9% QoQ) {Int cost +66% YoY to Rs 22.9mn}
- Amalgamation of subsidiaries i.e. **Marpol (powder Coating)** and **Perma Constructions Aids (construction chemicals)** was approved by NCLT from effective date of July 2019 and respective effect was given (not material)

Outlook

- Inflation trend likely to continue, and semiconductor shortage would be longer than expected. Due to shortage, supply of products is happening on "Just in time" basis.
- Price increase taken YTD in line with industry @ 6-7% in decorative, further price increase to follow, some formulation changes as well as leverage on Neroalc's global supply chain should help mitigate some inflation. Impact of all efforts in margins will only be witnessed in Q4FY22
- Growth remains robust on account of festive demand supported by good monsoons and reduction in fear of 3rd wave.

Financial Summary Consolidated

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Net sales	54,243	52,800	50,743	64,491	70,589
% Growth	16	(2.7)	(3.9)	27.1	9.5
EBIDTA	7,525	8,045	8,633	8,154	10,642
Margins	14	15	17	13	15
PAT	4,527.5	5,210.1	5,297.4	4,876.5	6,713.6
growth (%)	(12)	15.1	1.7	(7.9)	37.7
EPS	8.4	9.7	9.8	9.0	12.5
P/E (x)	66.7	57.9	57.0	61.9	45.0
P/B (x)	8.8	8.0	7.4	6.9	6.3
EV/EBITDA (x)	39.7	36.9	34.0	36.3	27.6
ROCE (%)	18.4	16.8	16.5	14.1	17.7
RoE (%)	13.3	13.9	13.1	11.2	14.1

Source: Dalal and Broacha

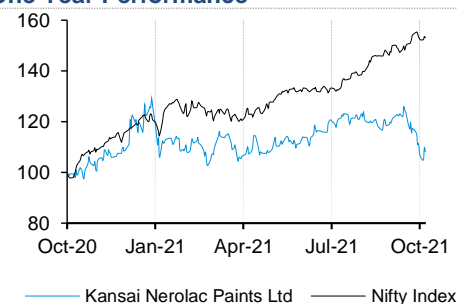
Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	587	5

Market data

Current price	Rs	560
Market Cap (Rs.Bn)	(Rs Bn)	4,026
Market Cap (US\$ Mn)	(US\$ Mn)	53,711
Face Value	Rs	1
52 Weeks High/Low	Rs	678 / 491
Average Daily Volume	(000)	1,169
BSE Code		500165
Bloomberg		KNPL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	74.99	74.99
Public	25.01	25.01
Total	100	100

Source: Bloomberg

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Conference Call Highlights

- **Volume growth in Q2FY22 was similar to revenue growth at ~16%** || Overall growth in decorative and industrial similar

Business-wise details

1. **DECORATIVE (~55% of revenue)** with unlocking demand remained positive, *no pent-up* demand witnessed and the growth is normal in October -21

- Urban witnessed stronger demand in Q2FY22, however for H1 urban as well as rural were similar
- Premium products too did well

2. **AUTO demand (~33% of revenue)** semi-conductor issue impacted production of PV in Aug and Sept-21 || 2W remained subdued (scooters was better than bike)

- 3W and CV witnessed demand revival || Tractors grew well
- New players have entered especially in 2W electric, however Kansai has still maintained its leadership market share @ 60%

3. **Other Industrials has picked up** || Price increase in case of non-auto (like performance coats) was more aggressive || powder coatings and other business doing well.

4. Subsidiaries

- **Nerofix** (adhesive) business did well with strong topline growth
- **Nepal** had strong Sales growth despite demand being impacted in July & August due to continuous rains and sporadic COVID lockdowns
- **Srilanka** business grew on lower base and change in strategy
- **Bangladesh** growth was impacted in Q2 on account lockdown, but remained healthy at H1 level Raw Materials outlook
- Unprecedented levels of Inflation led by rise crude and chemical prices and **supply-chain bottlenecks**
- Price increases only partially covered inflation. **Further price increase to follow.**

- **Launches**

- Focus is on **differentiated products** to fill in the demand gaps and catch up with late entry in some product category
- 2 new Products in Construction Chemicals Range introduced "**Beauty Coat washable**" doing well
- Contribution from new products too has improved

- **Network**
 - Expanded by 10% in current year to 28000 dealers
 - **Capex for FY22 @ Rs 900mn**
- **INDUSTRY**
 - Size @ 55000crs (50% penetrated by organised)
 - Shift towards organised from un-organised was slightly higher in recent quarters but local players do have a big advantage in-terms of geography understanding
 - Adjacencies like wood-finish, adhesive and water-proofing have helped expand the market size

Quarterly Financials

Particulars (Rs Mns) (Standalone)	Q2FY22	Q2FY21	Growth	Q1FY21	Growth
Net Sales (excluding Excise Duty & GST)	15207.4	13089.1	16.2%	13216.3	15.1%
Other Operating Income					
TOTAL Operating income	15207.4	13089.1	16.2%	13216.3	15.1%
Cost of material consumed	10975.7	7496.5	46.4%	7720.1	42.2%
Purchase of stock in trade	1088.1	874.9	24.4%	833.3	30.6%
Changes of inventories	-1253.6	-432.1	190.1%	125.6	-1098.1%
Total raw material consumed	10810.2	7939.3	36.2%	8679	24.6%
% OF OPERATING INCOME	71.1%	60.7%		65.7%	
Employee expenses	693.4	663.6	4.5%	720.6	-3.8%
% OF OPERATING INCOME	4.6%	5.1%		5.5%	
Other expenses	2057.1	1858	10.7%	1919.4	7.2%
% OF OPERATING INCOME	13.5%	14.2%		14.5%	
TOTAL EXPENDITURE	13560.7	10460.9	29.6%	11319	19.8%
Other Income	62.3	43.7	42.6%	97.1	-35.8%
EBITDA	1709	2671.9	-36.0%	1994.4	-14.3%
EBIDTA (Excl Other Income)	1646.7	2628.2	-37.3%	1897.3	-13.2%
EBIDTA MARGINS	10.8%	20.1%		14.4%	
Depreciation	380.1	355.9	6.8%	377.4	0.7%
Interest	22.9	13.8	65.9%	26.8	-14.6%
PBT	1306	2302.2	-43.3%	1590.2	-17.9%
Exceptional Items		-108.2			
TAX	320.6	601.2	-46.7%	401.4	-20.1%
TAX RATE	24.5%	26.1%		25.2%	
Net Profit Reported	985.4	1592.8	-38.1%	1188.8	-17.1%
PAT Adjusted	985.4	1701	-42.1%	1188.8	-17.1%
NPM	6.5%	13.0%		8.9%	
Equity	538.9	538.9	0.0%	538.9	0.0%
EPS on Adjusted PAT	1.83	3.16	-42.1%	2.21	-17.1%

Outlook and Valuations

Valuations: at Rs 560 Kansai Nerolac trades at 62x FY22e EPS of Rs 9 and 45x FY23e EPS of Rs 12.5 post revision of our earnings lower on account of unprecedented raw mat inflation which would also keep margins under pressure for some time, even though the demand remains strong. We believe the stock to remain range-bound in the short to medium term period hence change our view from “Buy on Dips” to **Neutral and reduce our target price to 587.**

Financial

P&L (Rs mn) CONSOL No.:	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	70,589.4	Net Profit	4,527.5	5,210.1	5,297.4	4,876.5	6,713.6
Raw Materials	(34,617.6)	(32,586.1)	(31,465.3)	(43,359.5)	(45,177.2)	Add: Dep. & Amort.	1,062.8	1,421.2	1,653.0	1,724.5	1,834.6
Employee Cost	(2,834.1)	(3,103.7)	(3,046.8)	(3,260.1)	(3,553.5)	Cash profits (Inc)/Dec in	5,590.3	6,631.3	6,950.4	6,601.0	8,548.2
Other Expenses	(9,266.3)	(9,065.3)	(7,597.6)	(9,716.7)	(11,216.4)	Sundry debtors	(529.2)	(314.2)	(1,693.7)	(2,804.6)	764.3
Operating Profit	7,525.2	8,044.6	8,632.8	8,154.3	10,642.4	Inventories	(2,818.8)	1,027.1	(1,895.8)	(2,509.0)	(16.4)
Depreciation	(1,062.8)	(1,421.2)	(1,653.0)	(1,724.5)	(1,834.6)	Loans/advances	(2,448.2)	623.0	483.3	(692.3)	(803.6)
PBIT	6,462.4	6,623.4	6,979.8	6,429.8	8,807.8	Current Liab and Provisions	(361.9)	(336.7)	3,419.1	1,926.9	(1,206.1)
Other income	605.2	255.3	382.1	354.0	445.5	Change in working capital	(6,158.1)	999.2	312.9	(4,079.0)	(1,261.8)
Interest	(99.7)	(209.1)	(237.4)	(291.3)	(291.3)	CF from Oper. activities	(567.8)	7,630.5	7,263.3	2,522.0	7,286.4
PBT	6,967.9	6,669.6	7,124.5	6,492.5	8,962.0	CF from Inv. activities	(1,820.3)	(5,456.2)	(5,719.1)	(882.6)	(2,000.0)
Exceptionals	-	-	-	-	-	CF from Fin. activities	(285.9)	(1,216.1)	(2,219.2)	(1,503.9)	(2,594.8)
Profit before tax (post exceptional)	6,967.9	6,669.6	7,124.5	6,492.5	8,962.0	Cash generated/(utilised)	(2,674.0)	958.2	(675.0)	135.4	2,691.6
Provision for tax	(2,491.3)	(1,511.8)	(1,867.3)	(1,636.1)	(2,258.4)	Cash at start of the year	3,636.2	962.1	1,920.3	1,245.3	1,380.8
Reported PAT	4,476.6	5,157.8	5,257.2	4,856.4	6,703.5	Cash at end of the year	962.1	1,920.3	1,245.3	1,380.8	4,072.4
MI	50.9	52.3	40.2	20.1	10.1						
Net Profit	4,527.5	5,210.1	5,297.4	4,876.5	6,713.6						
Adjusted Profit (excl Excep	4,527.5	5,210.1	5,297.4	4,876.5	6,713.6						

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	12.6	15.1
Reserves	33,624.4	37,064.1	39,990.1	42,989.1	47,118.0	NPM	8.3	9.8	10.4	7.5	9.5
Net worth	34,163.3	37,603.0	40,529.0	43,528.0	47,656.9	Tax rate	(35.8)	(22.7)	(26.2)	(25.2)	(25.2)
MI	200.9	216.8	362.8	342.7	332.7	Growth Ratios (%)					
Non Current Liabilities	1,310.4	1,844.0	2,036.5	2,104.3	2,104.5	Net Sales	16.4	(2.7)	(3.9)	27.1	9.5
Current Liabilities	9,504.3	9,172.4	12,405.2	14,657.9	13,451.5	Operating Profit	(5.2)	6.9	7.3	(5.5)	30.5
Equities and Liabilities	45,178.9	48,836.2	55,333.5	60,632.9	63,545.6	PBIT	(9.8)	2.5	5.4	(7.9)	37.0
Non Current Assets	17,965.4	20,914.6	21,348.3	22,750.3	22,940.2	PAT	(12.0)	15.1	1.7	(7.9)	37.7
Fixed Assets	17,618.4	19,231.7	19,385.5	20,461.0	20,626.4	Per Share (Rs.)					
Right to use of Assets	-	1,325.4	1,607.1	1,917.0	1,917.0	Net Earnings (EPS)	8.4	9.7	9.8	9.0	12.5
Goodwill	195.8	197.8	197.8	197.8	197.8	Cash Earnings (CPS)	10.4	12.3	12.9	12.2	15.9
Non Current Investments	9.6	8.5	9.5	11.3	11.3	Dividend	2.6	3.2	5.3	3.5	4.8
Deferred Tax Asset	-	-	-	-	-	Book Value	63.4	69.8	75.2	80.8	88.4
Long Term Loans and Advances	141.6	151.2	148.4	163.2	187.7	Free Cash Flow	(4.4)	4.0	2.9	3.0	9.8
Current Assets	27,213.5	27,921.6	33,985.2	37,882.6	40,605.4	Valuation Ratios					
Current investments	1,955.6	3,051.0	6,680.6	4,451.5	4,451.5	P/E(x)	66.7	57.9	57.0	61.9	45.0
Inventories	11,110.6	10,083.5	11,979.3	14,488.3	14,504.7	P/B(x)	8.8	8.0	7.4	6.9	6.3
Trade Receivables	7,555.6	7,869.8	9,563.5	12,368.1	11,603.7	EV/EBIDTA(x)	39.7	36.9	34.0	36.3	27.6
Cash and Bank Balances	962.1	1,920.3	1,245.3	1,380.8	4,072.4	Div. Yield(%)	0.5	0.6	0.9	0.6	0.9
Short Term Loans and Advances	52.2	48.7	67.8	78.0	89.7	FCF Yield(%)	(0.8)	0.7	0.5	0.5	1.8
Other Current Assets	5,577.4	4,948.3	4,448.7	5,116.0	5,883.4	Return Ratios (%)					
Total Assets	45,178.9	48,836.2	55,333.5	60,632.9	63,545.6	ROE	13%	14%	13%	11%	14%
						ROCE	18%	17%	17%	14%	18%

Source: Dalal & Broacha Research, Company

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