

Uncertain Demand with rising commodity prices

Kansai Nerolac Q4FY21 Standalone results were better than expectations

- **Revenue** increased by 34.7%YoY to Rs 13304.8mn (*decorative and industrial paints witnessed strong demand with high double digit volume growth on low base*)
- **EBIDTA** grew by 59% YoY to Rs 2033.6mn || EBIDTA margins 15.3% v/s 12.9% YoY and 19.7% QoQ
- **PAT (adj)** increased by 78.8% YoY to Rs 1278mn

Other Details

- **Raw Mat to % to Revenues** stood at 65.6%v/s 61.5%YoY and 61.6% QoQ (*Crude Oil prices Indian basket have increased by 19.5% YoY and 33.5% QoQ*)
The company has mentioned that the full impact of material price rise is yet to be come in and expect inflation to continue and has taken some price increases.
- **Employee cost** rose by 1.5% on a YoY basis to Rs 658.7mn
- **Other Expenses as a % to Revenue** stood at 14.2% v/s 19% YoY
- **PBT** increased by 74% YoY to Rs 1712.5mn || aided by other income rise of 210% on a YoY basis to Rs 124mn
- Dividend Recommended Rs 4 (which includes a special div of Rs 2)

Outlook

- The second wave of Covid has caught everyone by surprise. This time the spread is a) higher in terms of no. of cases and b) wider in terms of reach to rural areas and smaller towns (which were demand saviors during the 1st wave)
- Short-to medium terms demand could be impacted and RM too have risen significantly.

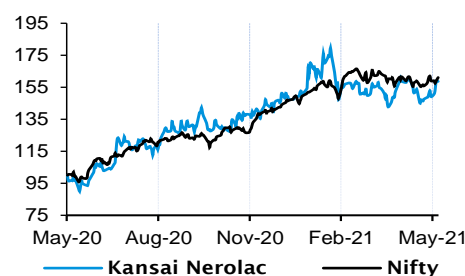
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	616	9

Market data

Current price	Rs	567
Market Cap (Rs.Bn)	(Rs Bn)	305
Market Cap (US\$ Mn)	(US\$ Mn)	4158
Face Value	Rs	1
52 Weeks High/Low	Rs	680/333
Average Daily Volume	('000)	166
BSE Code		500165
Bloomberg		KNPL:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	74.99	74.99
Public	25.01	25.01
Others	0.00	0.00
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Net sales	54,243	52,800	50,743	55,267	70,274
% Growth	16	(2.7)	(3.9)	8.9	27.2
EBIDTA	7,525	8,045	8,633	7,355	11,291
Margins	14	15	17	13	16
PAT	4,527.5	5,210.1	5,297.4	4,420.3	7,393.1
growth (%)	(12)	15.1	1.7	(16.6)	67.3
EPS	8.4	9.7	9.8	8.2	13.7
P/E (x)	67.5	58.6	57.7	69.1	41.3
P/B (x)	8.9	8.1	7.5	7.1	6.4
EV/EBITDA (x)	40.2	37.4	34.5	40.3	26.2
ROCE (%)	18.4	16.8	16.5	12.3	18.9
RoE (%)	13.3	13.9	13.1	10.2	15.5

Source: Dalal and Broacha

Kunal Bhatia
(022) 67141442
kunal.bhatia@dalal-broacha.com

Conference Call Highlights

Current Situation

- April -2021, initial 3 weeks were good plus has a low base and is a big months in terms of demand. Post that demand is impacted and outlook is uncertain
- 70% depots closed, dealer shops 90% closed and small order servicing has become difficult || Repainting has become negligible || logistics is impacted || OEM's too have announced shutdown || projects business (Kansai is not big) are facing labor issues

Market Share in Decorative did not increase as

- Kansai is strong in mid-to-premium and lower range products where competition introduced lot of new products and Kansai was late on introductions; in H2FY21 Kansai introduced value for money premium and economy products as well that will improve topline.
- Kansai was late in introducing product in construction and adhesive space which has expanded due to newer-kind of products being introduced by paint companies, Kansai too has now a separate team working on the same.
- **Auto Market share gained** since Kansai is one of the most cost-effective players. Focus is now to get price increase
- **Industrial segment achieved market share gains** supported by new products aided by technology tie-ups with Nerolac companies in different geographies
 - Auto Refinish mid-range product launched with help of Nerolac-turkey, 200 machines installed in 3 months.
 - Tie-up with Nerolac-Europe for performance coatings in railway and power sector, will aid generating business with European counterparts in India.

Gross Margins

- RM has gone from Q4FY21, for Kansai in specific it is mainly on account of Auto (~33% of Revenue) since price increases have not happened
- From Q1FY22 even Decorative is getting impacted since low-cost inventory is over, price increase is inevitable, timing call need to be taken. 13% inflation in April, with 2.5% price increase only 5% is mitigated as of now.
- Price increased since Jan-2021 as follows: +8% industrial, +5% refinish, +3% Performance coating
- **Launched lots of App's to connect dealers (for direct ordering)** and influencers (i.e. painters) and Kansai is fully digitalized in terms of billing

Subsidiary Performance (Domestic) FY21

- Perma (construction chemicals) +4.2% YoY || EBIDTA margins have increased from 9.7% to 13.3%
- Nerofix (adhesive business started in Dec-2019) Revenue impacted due to lockdown || EBIDTA margins @ 3.1%

- Marpol (powder Coating) Revenue -1.9%|| EBIDTA @ 9.8%

Subsidiary Performance (international) FY21

- Nepal: Revenue -20%|| Margins improved from 16% to 18%
- Bangladesh: Revenue +15% (sales rebounded after Q2) \\
EBIDTA margins from 2.9% to 6% in 2 years.
- Srilanka: Sales +20%|| losses reduced

Note: (Overall subsidiary Revenue = Rs 3843mn +14% YoY) (Cons-Standalone)

- **Cash and Bank (ex of Subsidiary investment) Rs 7403mn**
- **Capex FY21@ Rs1470mn FY22@ Rs2800mn** (vertical integration will help reducing cost)

Quarterly Financials

Particulars (Rs Mns)	Q4FY21	Q4FY20	Growth	Q3FY21	Growth
Net Sales (excluding Excise Duty & GST)	13210.9	9809.7	34.7%	14661.4	-9.9%
Other Operating Income	93.9	70.7	32.8%	72.4	29.7%
TOTAL Operating income	13304.8	9880.4	34.7%	14733.8	-9.7%
Cost of material consumed	8818.9	6519.5	35.3%	8459.2	4.3%
Purchase of stock in trade	860.4	786	9.5%	983.3	-12.5%
Changes of inventories	-950.8	-1227.4	-22.5%	-371.7	155.8%
Total raw material consumed	8728.5	6078.1	43.6%	9070.8	-3.8%
% OF OPERATING INCOME	65.6%	61.5%		61.6%	
Employee expenses	658.7	649	1.5%	642.4	2.5%
% OF OPERATING INCOME	5.0%	6.6%		4.4%	
Other expenses	1884	1875.4	0.5%	2122.3	-11.2%
% OF OPERATING INCOME	14.2%	19.0%		14.4%	
TOTAL EXPENDITURE	11271.2	8602.5	31.0%	11835.5	-4.8%
Other Income	123.8	39.9	210.3%	140.6	-11.9%
EBITDA	2157.4	1317.8	63.7%	3038.9	-29.0%
EBIDTA (Excl Other Income)	2033.6	1277.9	59.1%	2898.3	-29.8%
EBIDTA MARGINS	15.3%	12.9%		19.7%	
Depreciation	404.7	320.4	26.3%	336.4	20.3%
Interest	40.2	12.9	211.6%	10.4	286.5%
PBT	1712.5	984.5	73.9%	2692.1	-36.4%
Exceptional Items					
TAX	434.5	269.9	61.0%	672.8	-35.4%
TAX RATE	25.4%	27.4%		25.0%	
Net Profit Reported	1278	714.6	78.8%	2019.3	-36.7%
PAT Adjusted	1278	714.6	78.8%	2019.3	-36.7%
NPM	9.5%	7.2%		13.6%	
Equity	538.9	538.9	0.0%	538.9	0.0%
EPS on Adjusted PAT	2.37	1.33	78.8%	3.75	-36.7%

Source: Dalal & Broacha Research, Company

Double digit Volume growth in Decorative and industrial due to low base

Auto business no price increase taken, which mainly impacted Gross Margins in Q4FY21, however recent rise in commodity makes further price increase inevitable

Other Income aided PBT growth

Outlook and Valuation

The second wave of Covid has caught everyone by surprise. This time the spread is a) higher in terms of no. of cases and b) wider in terms of reach to rural areas and smaller towns (which were demand saviors during the 1st wave)

This could have a short-term negative impact on household income as well. Painting falls in the high-ticket-size spend category and with so much uncertainty it will get impacted.

On the other-hand Raw material prices are too have risen significantly and given the situation price increase have become difficult.

Kansai is putting all efforts in-terms of right product mix in the mid-premium and lower end paints, plus expanding product categories i.e. construction chemicals, adhesives, auto-refinish and-so-on on one hand and also focusing on effective cost management on the other.

All segments decorative (~55% of Revenue) Auto (~33% of Revenue) have been impacted in the short-term and we do believe that the stock would be under pressure for some time due to the external factors.

However, when the economy will revive post the second wave Kansai would be one of the big-beneficiary as all its segments would bounce back.

Valuations: At CMP of Rs 567 Kansai trades at 69x and 41x FY22 and FY23e EPS of Rs 8.2 and 13.7. Due to the current un-certain environment we believe that the upside is limited over a short-term period and stock could remain under pressure hence change our recommendation from “Buy” to “Buy on Dips” with a target price of Rs 616 (45x FY23e EPS of Rs 13.7)

Financials

P&L (Rs mn)	FY19E	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19E	FY20	FY21	FY22E	FY23E
Net Sales	54,243.2	52,799.7	50,742.5	55,267.2	70,273.7	Net Profit	4,527.5	5,210.1	5,297.4	4,420.3	7,393.1
Raw Materials	(34,617.6)	(32,586.1)	(31,465.3)	(35,371.0)	(43,569.7)	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)	(3,229.6)	(3,552.6)	Cash profits (Inc)/Dec in	5,590.3	6,631.3	6,950.4	6,235.5	9,324.3
Other Expenses	(9,266.3)	(9,065.3)	(7,597.6)	(9,311.3)	(11,860.5)	Sundry debtors	(529.2)	(314.2)	(1,693.7)	478.5	(1,504.2)
Operating Profit	7,525.2	8,044.6	8,632.8	7,355.2	11,290.9	Inventories	(2,818.8)	1,027.1	(1,895.8)	(134.1)	(1,363.8)
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	5,540.0	9,359.8	Current Liab and Provisions	(361.9)	(336.7)	3,481.6	(173.4)	(156.7)
Other income	605.2	255.3	382.1	580.0	748.0	Change in working capital	(6,158.1)	999.2	375.4	(521.3)	(3,828.2)
Interest	(99.7)	(209.1)	(237.4)	(237.4)	(237.4)	CF from Oper. activities	(567.8)	7,630.5	7,325.8	5,714.3	5,496.0
PBT	6,967.9	6,669.6	7,124.5	5,882.6	9,870.4	CF from Inv. activities	(1,820.3)	(5,456.2)	(5,719.1)	(2,800.0)	(2,000.0)
Exceptionals	-	-	-	-	-	CF from Fin. activities	(285.9)	(1,216.1)	(2,281.7)	(1,721.9)	(2,856.4)
Profit before tax (post exceptional)	6,967.9	6,669.6	7,124.5	5,882.6	9,870.4	Cash generated/(utilised)	(2,674.0)	958.2	(675.0)	1,192.4	639.7
Provision for tax	(2,491.3)	(1,511.8)	(1,867.3)	(1,482.4)	(2,487.3)	Cash at start of the year	3,636.2	962.1	1,920.3	1,245.3	2,437.7
Reported PAT	4,476.6	5,157.8	5,257.2	4,400.2	7,383.0	Cash at end of the year	962.1	1,920.3	1,245.3	2,437.7	3,077.3
MI	50.9	52.3	40.2	20.1	10.1						
Net Profit	4,527.5	5,210.1	5,297.4	4,420.3	7,393.1						
Adjusted Profit (excl Exc	4,527.5	5,210.1	5,297.4	4,420.3	7,393.1						

Balance Sheet	FY19E	FY20	FY21	FY22E	FY23E	Ratios	FY19E	FY20	FY21	FY22E	FY23E
Equity capital	538.9	538.9	538.9	538.9	538.9	OPM	13.9	15.2	17.0	13.3	16.1
Reserves	33,624.4	37,064.1	39,990.1	42,708.6	47,255.3	NPM	8.3	9.8	10.4	7.9	10.4
Net worth	34,163.3	37,603.0	40,529.0	43,247.5	47,794.2	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	2,036.7	2,037.0	Net Sales	16.4	(2.7)	(3.9)	8.9	27.2
Current Liabilities	9,504.3	9,172.4	12,405.2	12,231.6	12,074.7	Operating Profit	(5.2)	6.9	7.3	(14.8)	53.5
Equities and Liabilities	45,178.9	48,836.2	55,333.5	57,858.5	62,238.6	PBIT	(9.8)	2.5	5.4	(20.6)	68.9
Non Current Assets	17,965.4	20,914.6	21,348.3	22,347.9	22,441.2	PAT	(12.0)	15.1	1.7	(16.6)	67.3
Fixed Assets	17,618.4	19,231.7	19,385.5	20,370.2	20,439.1	Per Share (Rs.)					
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	8.2	13.7
Goodwill	195.8	197.8	197.8	197.8	197.8	Cash Earnings (CPS)	10.4	12.3	12.9	11.6	17.3
Non Current Investments	9.6	8.5	9.5	9.5	9.5	Dividend	2.6	3.2	5.3	3.2	5.3
Deferred Tax Asset	-	-	-	-	-	Book Value	63.4	69.8	75.2	80.2	88.7
Long Term Loans and Advances	141.6	151.2	148.4	163.2	187.7	Free Cash Flow	(4.4)	4.0	3.0	5.4	6.5
Current Assets	27,213.5	27,921.6	33,985.2	35,510.6	39,797.3	Valuation Ratios					
Current investments	1,955.6	3,051.0	6,680.6	6,680.6	6,680.6	P/E(x)	67.5	58.6	57.7	69.1	41.3
Inventories	11,110.6	10,083.5	11,979.3	12,113.4	13,477.2	P/B(x)	8.9	8.1	7.5	7.1	6.4
Trade Receivables	7,555.6	7,869.8	9,563.5	9,085.0	10,589.2	EV/EBIDTA(x)	40.2	37.4	34.5	40.3	26.2
Cash and Bank Balances	962.1	1,920.3	1,245.3	2,437.7	3,077.3	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	1.0	1.1
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	57,858.5	62,238.6	ROE	13%	14%	13%	10%	15%
						ROCE	18%	17%	17%	12%	19%

Source: Dalal & Broacha Research, Company

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Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	Head of Research	kunal.bhatia@dalal-broacha.com	022 671 41442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 671 41446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 671 41412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 671 41449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 671 41486	BFSI
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 671 41441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com