



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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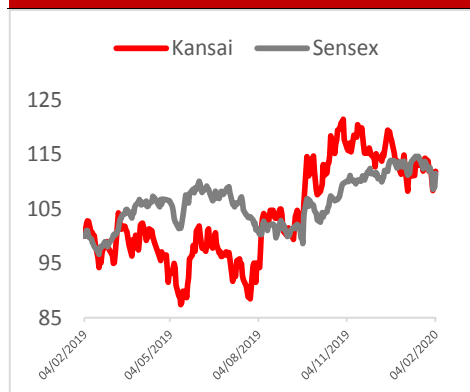
Buy on Dips

Current Price	505
52 Week Range	Rs 573/372

Key Share Data

Market Cap (Rs.bn)	272.05
Market Cap (US\$ mn)	3831
No of o/s shares (mn)	538.91
Face Value	1.0
Monthly Avg. vol(BSEgrew byNSE)	
Nos'000	217.08
BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL IN

Price performance



% Shareholding	Dec-19	Sept-19
Promoters	74.99	74.99
Institutions	15.80	15.41
Others	9.21	9.60
Total	100.0	100.0

Key Financials (in mn)

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY18	46,580.8	14.9	7,937.9	17.0	5,144.0	1.1	9.5	52.9	16.4	22.8
FY19	54,243.2	16.4	7,525.2	13.9	4,527.5	(12.0)	8.4	60.1	13.3	18.4
FY20e	53,969.6	(0.5)	8,306.4	15.4	5,209.6	15.1	9.7	52.2	13.9	17.9
FY21e	60,956.6	12.9	9,572.8	15.7	6,234.9	19.7	11.6	43.7	15.1	19.0
FY22e	68,244.7	12.0	10,866.7	15.9	7,179.8	15.2	13.3	37.9	15.7	19.8

Kansai Nerolac Q3FY20 standalone results were below our estimates. All segments including decorative and industrial (including auto) remain under pressure.

Revenues -7.6% YoY to Rs 12481.4mn. The decline was mainly contributed by auto which was down by 20% on a YoY basis. Decorative witnessed just 1% volume growth on account of factors such as extended monsoons, no discounting to push sales and early Diwali.

EBIDTA +8.4% YoY to Rs 1918.8mn

EBIDTA margins 15.4% as against 13.1% YoY and 17.1% QoQ

Raw Materials to Revenues 62.5% v/s 65.5% YoY and 61.6% QoQ

Other expenses to Revenues 16.7% v/s 16.4% YoY

PBT flat (-.09%) at Rs 1716.7mn

Depreciation +33.6% YoY to Rs 314mn (*on account of new plant commencement at Goindwal Sahib near Amritsar in Punjab*)

Interest cost Rs 12.1mn v/s NIL YoY

Other Income -37.4% YoY to Rs 139.9mn

Tax rate 28.6% v/s 35% YoY on account of adoption to the new tax regime.

PAT +8.8% YoY to Rs 1226.5mn

Other KTA's from management

Decorative saw a dip in demand: on account of lower offtake in festive season and extended monsoons. Company witnessed 1% volume growth this quarter. Higher sale of premium segment aided margins this quarter

Automotive segment: down 20% YoY, next 3-4 months remains challenging **input cost** in Q3FY20 were stable although volatility in exchange rate and crude oil prices will create challenges in raw material cost management. Due to recent issues regarding CoronaVirus, supply side could get impacted

Going forward: Q4FY20 is expected to be better than Q3FY20, company's focus will be on maintaining profitable volume growth and sustaining the current EBITDA margins (improved by 230bps) supported by lower discounting and benign crude prices.

Valuation@538: Kansai Nerolac is a leader in auto paints, thus we expect stock to remain under pressure in short-term due to volatility in auto numbers. There is some revival on MoM basis; and 3-6 months onward the scenario is expected to be better in case of Auto as well as industrial (~45% of business).

We maintain **Buy on Dips**. The stock is trading at 43.7x FY21e EPS of Rs. 11.6 and 37.9x FY22e EPS of Rs. 13.3.



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Particulars (Rs Mns)	Q3FY19	Q3FY20	9MFY19	9MFY20
		1.0027891		
Net Sales (excluding Excise Duty & GST)	13436.40	12404.30	39968.80	39342.30
Growth		-7.7%	15.1%	-1.6%
Other Operating Income	70.200	77.100	235.80	209.00
Growth		9.8%	101.7%	-11.4%
TOTAL Operating income	13506.60	12481.40	40204.60	39551.30
Growth		-7.6%	15.4%	-1.6%
Cost of material consumed	8418.400	6041.800	24692.10	20702.30
Purchase of stock in trade	685.4	736.4	1884.10	2056.30
Changes of inventories	-261.5	1022.4	-899.50	1739.50
Total raw material consumed	8842.3	7800.6	25676.7	24498.1
% OF OPERATING INCOME	65.5%	62.5%	63.9%	61.9%
Growth		-11.8%	22.9%	-4.6%
Employee expenses	677	675.7	1944.60	2044.80
Growth		-0.2%	14.8%	5.2%
% OF OPERATING INCOME	5.0%	5.4%	4.8%	5.2%
Other expenses	2217.60	2086.30	6659.60	6470.10
% OF OPERATING INCOME	16.4%	16.7%	16.6%	16.4%
Growth		-5.9%	10.5%	-2.8%
TOTAL EXPENDITURE	11736.9	10562.6	34280.9	33013.0
Other Income	198.4	124.2	474.30	228.70
EBITDA	1968.10	2043.00	6398.00	6767.00
EBIDTA (Excl Other Income)	1769.70	1918.80	5923.70	6538.30
EBIDTA MARGINS	13.1%	15.4%	14.7%	16.5%
Growth		8.4%	-4.6%	10.4%
Depreciation	235.1	314.2	669.90	878.40
EBIT	1733.00	1728.80	5728.10	5888.60
Interest		12.1	0.00	37.10
Reversal of depreciation			0.00	0.00
PBT	1733.00	1716.70	5728.10	5851.50
Exceptional Items		-0.9%		
TAX	606.0	490.2	1982.80	1212.10
TAX RATE	35.0%	28.6%	34.6%	20.7%
Net Profit Reported	1127.00	1226.49	3745.30	4639.40
Non Controlling Interest				
PAT Adjusted	1127.00	1226.50	3745.30	4639.40
Growth		8.8%	-8.8%	23.9%
NPM	8.22%	9.73%	9.21%	11.66%
Other Comprehensive Income	-3.60	-4.30	-11.20	-13.00
Total Comprehensive Income	1123.40	1222.20	3734.10	4626.40
Equity	538.9	538.9	538.9	538.9
EPS on Adjusted PAT	2.09	2.28	6.95	8.61



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P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	40,525.5	46,580.8	54,243.2	53,969.6	60,956.6	68,244.7	Net Profit	5,088.4	5,144.0	4,527.5	5,209.6	6,234.9	7,179.8
Raw Materials	(23,691.1)	(28,135.6)	(34,617.6)	(33,407.2)	(37,488.3)	(41,970.5)	Add: Dep. & Amort.	700.9	770.7	1,062.8	1,383.5	1,485.5	1,562.1
Employee Cost	(2,025.7)	(2,350.8)	(2,834.1)	(3,140.4)	(3,517.2)	(3,869.0)	Cash profits	5,789.3	5,914.7	5,590.3	6,593.1	7,720.4	8,741.9
Other Expenses	(7,434.7)	(8,156.5)	(9,266.3)	(9,115.6)	(10,378.2)	(11,538.5)	(Inc)/Dec in						
Operating Profit	7,374.0	7,937.9	7,525.2	8,306.4	9,572.8	10,866.7	-Sundry debtors	(449.3)	(1,122.0)	(529.2)	(576.8)	(1,052.8)	(1,098.2)
Depreciation	(700.9)	(770.7)	(1,062.8)	(1,383.5)	(1,485.5)	(1,562.1)	-Inventories	(1,204.8)	(1,259.8)	(2,818.8)	760.3	(1,340.0)	(1,397.7)
PBIT	6,673.1	7,167.2	6,462.4	6,922.9	8,087.3	9,304.6	-Loans/advances	(963.8)	(1,205.8)	(2,448.2)	(335.2)	(753.9)	(847.5)
Other income	980.0	709.1	605.2	296.4	508.3	567.1	'-Current Liab and						
Interest	-	(6.7)	(99.7)	(196.3)	(196.3)	(196.3)	Provisions	263.0	1,813.0	(361.9)	779.7	1,191.3	1,360.5
PBT	7,653.1	7,869.6	6,967.9	7,023.0	8,399.3	9,675.5	Change in working capital	(2,354.9)	(1,774.6)	(6,158.1)	628.0	(1,955.4)	(1,982.9)
Exceptionals	-	-	-	-	-	-	CF from Oper. activities	3,434.4	4,140.1	(567.8)	7,221.1	5,765.1	6,759.0
Profit before tax (post exceptional)	7,653.1	7,869.6	6,967.9	7,023.0	8,399.3	9,675.5	CF from Inv. activities	(1,949.9)	(3,360.0)	(1,820.3)	(3,453.9)	(3,281.6)	(3,300.0)
Provision for tax	(2,552.3)	(2,732.1)	(2,491.3)	(1,767.7)	(2,114.1)	(2,435.3)	CF from Fin. activities	(1,393.4)	(2,020.3)	(285.9)	(1,989.0)	(2,350.2)	(2,703.9)
Reported PAT	5,100.8	5,137.5	4,476.6	5,255.3	6,285.2	7,240.2	Cash generated/(utilised)	91.1	(1,240.2)	(2,674.0)	1,778.2	133.3	755.1
MI	(12.4)	6.5	50.9	(45.7)	(50.3)	(60.3)	Cash at start of the year	4,785.3	4,876.4	3,636.2	962.1	2,740.3	2,873.6
Net Profit	5,088.4	5,144.0	4,527.5	5,209.6	6,234.9	7,179.8	Cash at end of the year	4,876.4	3,636.2	962.1	2,740.3	2,873.6	3,628.7
Adjusted Profit (excl Excep	5,088.4	5,144.0	4,527.5	5,209.6	6,234.9	7,179.8							
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	FY22E	Ratios	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity capital	538.9	538.9	538.9	538.9	538.9	538.9	OPM	18.2	17.0	13.9	15.4	15.7	15.9
Reserves	27,606.1	30,784.3	33,624.4	36,828.3	40,662.8	45,078.4	NPM	12.3	10.9	8.3	9.6	10.1	10.4
Net worth	28,145.0	31,323.2	34,163.3	37,367.2	41,201.7	45,617.3	Tax rate	(33.3)	(34.7)	(35.8)	(25.2)	(25.2)	(25.2)
MI	152.5	163.8	200.9	246.6	296.9	357.2	Growth Ratios (%)						
Non Current Liabilities	1,047.8	912.2	1,310.4	1,458.2	1,458.2	1,458.3	Net Sales	7.6	14.9	16.4	(0.5)	12.9	12.0
Current Liabilities	7,017.2	8,900.0	9,504.3	10,107.2	11,298.5	12,659.0	Operating Profit	26.1	7.6	(5.2)	10.4	15.2	13.5
Equities and Liabilities	36,362.5	41,299.2	45,178.9	49,179.3	54,255.3	60,091.7	PBIT	29.2	7.4	(9.8)	7.1	16.8	15.1
Non Current Assets	11,125.1	13,944.4	17,965.4	19,951.8	20,489.3	20,453.6	PAT	39.1	1.1	(12.0)	15.1	19.7	15.2
Fixed Assets	11,095.5	13,792.5	17,618.4	19,590.7	20,105.2	20,043.1	Per Share (Rs.)						
Goodwill	22.7	22.7	195.8	197.8	197.8	197.8	Net Earnings (EPS)	9.4	9.5	8.4	9.7	11.6	13.3
Non Current Investments	6.9	7.1	9.6	10.2	10.2	10.2	Cash Earnings (CPS)	10.7	11.0	10.4	12.2	14.3	16.2
Deferred Tax Asset	-	-	-	-	-	-	Dividend	3.0	2.6	2.6	3.1	3.7	4.2
Long Term Loans and Advances	-	122.1	141.6	153.1	176.1	202.5	Book Value	52.2	58.1	63.4	69.3	76.5	84.6
Current Assets	25,237.5	27,354.9	27,213.5	28,709.0	33,766.0	39,638.2	Free Cash Flow	2.8	1.4	(4.4)	7.0	4.6	6.4
Current investments	5,307.5	5,199.6	1,955.6	1,532.7	3,332.7	5,132.7	Valuation Ratios						
Inventories	7,032.0	8,291.8	11,110.6	10,350.3	11,690.3	13,088.0	P/E(x)	53.5	52.9	60.1	52.2	43.7	37.9
Trade Receivables	5,904.4	7,026.4	7,555.6	8,132.4	9,185.2	10,283.5	P/B(x)	9.7	8.7	8.0	7.3	6.6	6.0
Cash and Bank Balances	4,876.4	3,636.2	962.1	2,740.3	2,873.6	3,628.7	EV/EBITDA(x)	35.5	33.2	35.8	32.2	27.8	24.2
Short Term Loans and Advances	2.8	33.2	52.2	550.0	632.5	727.4	Div. Yield(%)	0.6	0.5	0.5	0.6	0.7	0.8
Other Current Assets	2,114.4	3,167.7	5,577.4	5,403.3	6,051.7	6,777.9	FCF Yield(%)	0.5	0.3	(0.9)	1.4	0.9	1.3
Total Assets	36,362.5	41,299.2	45,178.9	48,660.9	54,255.3	60,091.7	Return Ratios (%)						
							ROE	18%	16%	13%	14%	15%	16%
							ROCE	24%	23%	18%	18%	19%	20%



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