



**Kansai Nerolac Q3FY21 Standalone results were better than expectations on topline as well as margins.**

- Revenue increased by 18% YoY to Rs 14734mn.
- Volume growth in Decorative was 3-4% higher than value and in case of Industrial was similar to value growth
- EBIDTA increased by 51% YoY to 2898mn / EBIDTA Margins stood at 19.7% v/s 15.4% YoY v/s 20.1% QoQ
- PBT increased by 56.8% YoY to Rs. 2692.1 mn
- Adjusted PAT: rose by 64.6% YoY to Rs. 2019.30mn (supported by Tax rate of 25% v/s 28.6% YoY)

#### Other Key Highlights

- Raw Mat to Revenues 61.6% v/s 62.5% YoY and 60.8% QoQ. Going Forward due to supply side issue inflationary trends are expected.
- Employee cost -4.9% YoY to Rs 642.4mn
- Other Expenses as a % sales stood at 14.4% v/s 16.7% YoY and 14.1% QoQ

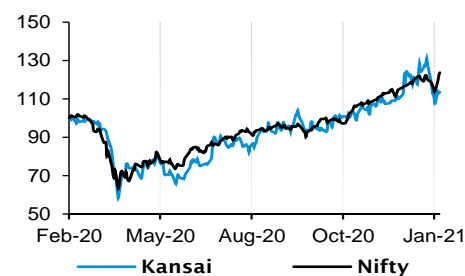
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>662</b>	<b>15</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>575</b>
Market Cap (Rs.Bn)	(Rs Bn)	312
Market Cap (US\$ Mn)	(US\$ Mn)	4280
Face Value	Rs	1
52 Weeks High/Low	Rs	680/296
Average Daily Volume	('000)	697
BSE Code		500165
Bloomberg		KNPL:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
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: BSE

#### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21e	FY22e	FY23e
Netsales	54,243	52,800	49,380	66,099	74,008
% Growth	16	(2.7)	(6.5)	33.9	12.0
EBIDTA	7,525	8,045	8,527	10,348	11,824
Margins	14	15	17	16	16
PAT	4,527.5	5,210.1	5,370.5	6,784.6	7,909.7
growth (%)	(12)	15.1	3.1	26.3	16.6
EPS	8.4	9.7	10.0	12.6	14.7
P/E (x)	68.4	59.5	57.7	45.7	39.2
P/B (x)	9.1	8.2	7.5	6.8	6.1
EV/EBITDA (x)	40.8	37.9	35.4	29.2	25.3
ROCE (%)	18.4	16.8	16.1	18.7	19.7
RoE (%)	13.3	13.9	13.0	14.9	15.7

Source: Dalal and Broacha

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## Conference Call Highlights

### Demand Recovery

- It was across Decorative and Industrial. Tier 1 and Urban too picked up and would normalize in coming quarters
- PV, Tractors as well as non-auto industrials did well.
- B2B ~10% of business would have some element of pent-up demand as most of the external painting work came to standstill during the pandemic.
- Overall sentiments looking at GST collections and Power consumption, remains positive.
- **Product Launches:** “Beauty Gold – Washable & Anti Bacteria”, “Suraksha Dust Resist”, “Beauty Sheen”

2 more quarters have low base and would show good YoY growth in Revenues.

### Competition

- Kansai Nerolac is stronger in *North & Eastern markets*, volume growth in current quarter v/s leader was lower since South and West did better which was also aided by putty (mass segment product).
- Over a long period of time i.e. 5 to 10 year market share is similar for Kansai in Decorative paints.
- Gained market share in Automotive and Powder coating
- New entrant like Grasim and JSW means more promotions to push paint consumption which is ~4kg per person and takes 5-7 years to move up significantly.

South and West where Kansai is not the leader performed better in Q3FY21, hence Asian Paints Volume growth was higher.

### Raw Material Outlook

- Prices have gone up both for decorative as well as industrial both due to supply chain challenges.
- Forex volatility also plays a major role.
- Price increase planned both in case of decorative as well as negotiations being done on industrial side of the business
- **Capex:** FY21 is expected to be ~Rs 2bn (of which Rs 0.6bn is towards maintenance), total capacity @ 5.5 lac tons / *Capacity utilization @ 68%*
- **Tinting Machines:** 65% of Kansai’s dealership have tinting machines, this reduces inventory as well as SKU’s at dealer end

We believe with Urban and Tier-1 picking up premium paints sales will normalise and upcoming price increase plans would help company to mitigate some RM inflation.

### Subsidiary Performance

- **Marpol (power Coating)** witnessed high double-digit growth in Q3FY21, **Perma (construction chemicals)** witnessed recovery in the Projects business led to a high double-digit growth in Q3 and **Nerofix (ashesive business)** also witnessed double digit growth in Q3FY21.
- Nepal market opened after long lockdown while Lanka markets remain impacted.
- Bangladesh Q2 and Q3 both recorded double-digit growth

All subs put together contribute 7% of Consolidated Revenue and were up by 4.2% YoY.

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## Outlook and Valuation

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- Shift from un-Organized to Organized would continue.
- Tier-1 and Urban picking up means rise in premium paints for decorative segment (i.e. 55% Revenue) which we believe is key for margins going forward especially in this inflationary scenario.
- At CMP of Rs 575 Kansai trades at 46x FY22e EPS of Rs 12.6 and 39x its FY23e EPS of Rs 14.7 which is cheaper than its peers i.e. Asian Paints and Berger.
- **Kansai is a good play on economy pick-up. We recommend Buy with a price target of Rs 662 (i.e. 45x FY23).**

## Quarterly Financials

Particulars (Rs Mns)	Q3FY21	Q3FY20	Growth	Q2FY21	Growth
Net Sales (excluding Excise Duty & GST)	14661.4	12404.3	18.2%	12780.3	14.7%
Other Operating Income	72.4	77.1	-6.1%	100.6	-28.0%
<b>TOTAL Operating income</b>	<b>14733.8</b>	<b>12481.4</b>	<b>18.0%</b>	<b>12880.9</b>	<b>14.4%</b>
Cost of material consumed	8459.2	6041.8	40.0%	7367.2	14.8%
Purchase of stock in trade	983.3	736.4	33.5%	874.9	12.4%
Changes of inventories	-371.7	1022.4	-136.4%	-416.8	-10.8%
<b>Total raw material consumed</b>	<b>9070.8</b>	<b>7800.6</b>	<b>16.3%</b>	<b>7825.3</b>	<b>15.9%</b>
<b>% OF OPERATING INCOME</b>	<b>61.6%</b>	<b>62.5%</b>		<b>60.8%</b>	
Employee expenses	642.4	675.7	-4.9%	639.7	0.4%
<b>% OF OPERATING INCOME</b>	<b>4.4%</b>	<b>5.4%</b>		<b>5.0%</b>	
Other expenses	2122.3	2086.3	1.7%	1822.1	16.5%
<b>% OF OPERATING INCOME</b>	<b>14.4%</b>	<b>16.7%</b>		<b>14.1%</b>	
<b>TOTAL EXPENDITURE</b>	<b>11835.5</b>	<b>10562.6</b>	<b>12.1%</b>	<b>10287.1</b>	<b>15.1%</b>
Other Income	140.6	124.2	13.2%	43.4	224.0%
EBITDA	3038.9	2043	48.7%	2637.2	15.2%
<b>EBIDTA (Excl Other Income)</b>	<b>2898.3</b>	<b>1918.8</b>	<b>51.0%</b>	<b>2593.8</b>	<b>11.7%</b>
<b>EBIDTA MARGINS</b>	<b>19.7%</b>	<b>15.4%</b>		<b>20.1%</b>	
Depreciation	336.4	314.2	7.1%	330.3	1.8%
Interest	10.4	12.1	-14.0%	11.1	-6.3%
<b>PBT</b>	<b>2692.1</b>	<b>1716.7</b>	<b>56.8%</b>	<b>2295.8</b>	<b>17.3%</b>
<b>Exceptional Items</b>				-108.2	
TAX	672.8	490.2	37.3%	602.1	11.7%
TAX RATE	25.0%	28.6%		26.2%	
Net Profit Reported	2019.3	1226.5	64.6%	1585.5	27.4%
<b>PAT Adjusted</b>	<b>2019.3</b>	<b>1226.5</b>	<b>64.6%</b>	<b>1693.7</b>	<b>19.2%</b>
<b>NPM</b>	<b>13.6%</b>	<b>9.7%</b>		<b>13.1%</b>	
Equity	538.9	538.9	0.0%	538.9	0.0%
<b>EPS on Adjusted PAT</b>	<b>3.75</b>	<b>2.28</b>	<b>64.6%</b>	<b>3.14</b>	<b>19.2%</b>

Volume growth in Decorative is 3% to 4% higher than value growth.

Raw Material prices expected to rise on a/c of supply issue globally, EBIDTA margins abnormally high will reduce going forward.

EBIDTA margins abnormally high, some costs benefits expected to go away.

Source: Dalal & Broacha Research, Company

## Financial

P&L (Rs mn)	FY19E	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19E	FY20	FY21E	FY22E	FY23E
Net Sales	54,243.2	52,799.7	49,379.9	66,098.7	74,008.4	Net Profit	4,527.5	5,210.1	5,370.5	6,784.6	7,909.7
Raw Materials	(34,617.6)	(32,586.1)	(29,974.5)	(40,320.2)	(45,145.1)	Add: Dep. & Amort.	1,062.8	1,421.2	1,570.6	1,678.6	1,764.9
Employee Cost	(2,834.1)	(3,103.7)	(3,013.7)	(3,687.2)	(4,055.9)	<b>Cash profits</b>	<b>5,590.3</b>	<b>6,631.3</b>	<b>6,941.1</b>	<b>8,463.1</b>	<b>9,674.7</b>
Other Expenses	(9,266.3)	(9,065.3)	(7,865.0)	(11,743.2)	(12,983.7)	<b>(Inc)/Dec in</b>					
<b>Operating Profit</b>	<b>7,525.2</b>	<b>8,044.6</b>	<b>8,526.7</b>	<b>10,348.1</b>	<b>11,823.7</b>	Sundry debtors	(529.2)	(314.2)	(247.5)	(1,661.7)	(1,170.2)
Depreciation	(1,062.8)	(1,421.2)	(1,570.6)	(1,678.6)	(1,764.9)	Inventories	(2,818.8)	1,027.1	(63.1)	(2,348.8)	(1,495.3)
PBIT	6,462.4	6,623.4	6,956.1	8,669.5	10,058.7	Loans/Advances	(2,448.2)	623.0	(527.1)	(688.0)	(771.6)
						Current Liab and					
Other income	605.2	255.3	363.7	457.0	589.5	Provisions	(361.9)	(336.7)	131.4	1,516.2	1,122.0
Interest	(99.7)	(209.1)	(209.9)	(91.2)	(91.2)	Change in working					
						capital	(6,158.1)	999.2	(706.1)	(3,182.3)	(2,315.1)
PBT	6,967.9	6,669.6	7,110.0	9,035.3	10,557.0	<b>CF from Oper. activities</b>	<b>(567.8)</b>	<b>7,630.5</b>	<b>6,235.0</b>	<b>5,280.8</b>	<b>7,359.6</b>
Exceptionals	-	-	-	-	-	<b>CF from Inv. activities</b>	<b>(1,820.3)</b>	<b>(5,456.2)</b>	<b>(1,357.9)</b>	<b>(2,000.0)</b>	<b>(1,600.0)</b>
Profit before tax (post						<b>CF from Fin. activities</b>	<b>(285.9)</b>	<b>(1,216.1)</b>	<b>(1,567.8)</b>	<b>(3,638.2)</b>	<b>(3,058.3)</b>
exceptional)	6,967.9	6,669.6	7,110.0	9,035.3	10,557.0	<b>Cash</b>					
Provision for tax	(2,491.3)	(1,511.8)	(1,791.7)	(2,276.9)	(2,660.4)	<b>generated/(utilised)</b>	<b>(2,674.0)</b>	<b>958.2</b>	<b>3,309.4</b>	<b>(357.4)</b>	<b>2,701.3</b>
<b>Reported PAT</b>	<b>4,476.6</b>	<b>5,157.8</b>	<b>5,318.2</b>	<b>6,758.4</b>	<b>7,896.7</b>	Cash at start of the year	3,636.2	962.1	1,920.3	5,229.7	4,872.3
MI	50.9	52.3	52.3	26.2	13.1	Cash at end of the year	962.1	1,920.3	5,229.7	4,872.3	7,573.6
<b>Net Profit</b>	<b>4,527.5</b>	<b>5,210.1</b>	<b>5,370.5</b>	<b>6,784.6</b>	<b>7,909.7</b>						
Adjusted Profit (excl Excep	4,527.5	5,210.1	5,370.5	6,784.6	7,909.7						

Balance Sheet	FY19E	FY20	FY21E	FY22E	FY23E	Ratios	FY19E	FY20	FY21E	FY22E	FY23E
Equity capital	538.9	538.9	538.9	538.9	538.9	OPM	13.9	15.2	17.3	15.7	16.0
Reserves	33,624.4	37,064.1	40,823.5	44,996.0	49,860.5	NPM	8.3	9.8	10.8	10.2	10.6
<b>Net worth</b>	<b>34,163.3</b>	<b>37,603.0</b>	<b>41,362.4</b>	<b>45,534.9</b>	<b>50,399.4</b>	Tax rate	(35.8)	(22.7)	(25.2)	(25.2)	(25.2)
MI	200.9	216.8	164.5	138.4	125.3	<b>Growth Ratios (%)</b>					
<b>Non Current Liabilities</b>	<b>1,310.4</b>	<b>1,844.0</b>	<b>1,811.0</b>	<b>1,811.1</b>	<b>1,811.1</b>	Net Sales	16.4	(2.7)	(6.5)	33.9	12.0
						Operating Profit	(5.2)	6.9	6.0	21.4	14.3
<b>Current Liabilities</b>	<b>9,504.3</b>	<b>9,172.4</b>	<b>9,432.5</b>	<b>9,948.7</b>	<b>11,070.7</b>	PBIT	(9.8)	2.5	5.0	24.6	16.0
						PAT	(12.0)	15.1	3.1	26.3	16.6
<b>Equities and Liabilities</b>	<b>45,178.9</b>	<b>48,836.2</b>	<b>52,770.4</b>	<b>57,433.0</b>	<b>63,406.4</b>	<b>Per Share (Rs.)</b>					
						Net Earnings (EPS)	8.4	9.7	10.0	12.6	14.7
<b>Non Current Assets</b>	<b>17,965.4</b>	<b>20,914.6</b>	<b>21,429.3</b>	<b>21,775.7</b>	<b>21,639.5</b>	Cash Earnings (CPS)	10.4	12.3	12.9	15.7	18.0
						Dividend	2.6	3.2	2.5	4.1	4.8
Fixed Assets	17,618.4	19,231.7	19,944.3	20,265.7	20,100.8	Book Value	63.4	69.8	76.8	84.5	93.5
Right to use of Assets		1,325.4	1,112.4	1,112.4	1,112.4	Free Cash Flow	(4.4)	4.0	9.0	6.1	10.7
Goodwill	195.8	197.8	197.8	197.8	197.8	<b>Valuation Ratios</b>					
Non Current Investments	9.6	8.5	8.5	8.5	8.5	<b>P/E(x)</b>	<b>68.4</b>	<b>59.5</b>	<b>57.7</b>	<b>45.7</b>	<b>39.2</b>
Deferred Tax Asset	-	-	-	-	-	<b>P/B(x)</b>	<b>9.1</b>	<b>8.2</b>	<b>7.5</b>	<b>6.8</b>	<b>6.1</b>
Long Term Loans and						<b>EV/EBIDTA(x)</b>	<b>40.8</b>	<b>37.9</b>	<b>35.4</b>	<b>29.2</b>	<b>25.3</b>
Advances	141.6	151.2	166.3	191.3	220.0	<b>Div. Yield(%)</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.7</b>	<b>0.8</b>
						<b>FCF Yield(%)</b>	<b>(0.8)</b>	<b>0.7</b>	<b>1.6</b>	<b>1.1</b>	<b>1.9</b>
<b>Current Assets</b>	<b>27,213.5</b>	<b>27,921.6</b>	<b>31,624.3</b>	<b>35,940.5</b>	<b>42,050.2</b>	<b>Return Ratios (%)</b>					
<b>Current investments</b>	<b>1,955.6</b>	<b>3,051.0</b>	<b>2,621.9</b>	<b>2,621.9</b>	<b>2,621.9</b>	ROE	13%	14%	13%	15%	16%
Inventories	11,110.6	10,083.5	10,146.6	12,495.4	13,990.6	ROCE	18%	17%	16%	19%	20%
Trade Receivables	7,555.6	7,869.8	8,117.3	9,779.0	10,949.2						
Cash and Bank Balances	962.1	1,920.3	5,229.7	4,872.3	7,573.6						
Short Term Loans and											
Advances	52.2	48.7	65.8	75.7	87.0						
Other Current Assets	5,577.4	4,948.3	5,443.1	6,096.3	6,827.9						
<b>Total Assets</b>	<b>45,178.9</b>	<b>48,836.2</b>	<b>53,053.6</b>	<b>57,716.2</b>	<b>63,689.6</b>						

Source: Dalal &amp; Broacha Research, Company

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