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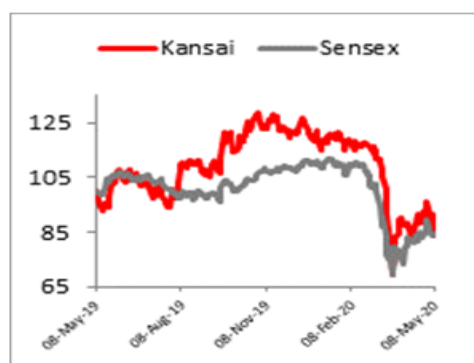
Buy on Dips

Current Price	360
52 Week Range	296/593
Target Price	438
Upside (%)	22%

Key Share Data

Market Cap (Rs.bn)	193.87
Market Cap (US\$ mn)	2567.81
No of o/s shares (mn)	538.92
Face Value	1
Monthly Avg. vol(BSEgrew byNSE)	
Nos'000	431.88
BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL:IN

Price performance



% Shareholding	Mar-20	Sept-19
Promoters	74.99	74.99
Institutions	15.94	15.80
Others	9.07	9.21
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	14.8	7,937.9	17.0	5,144.0	1.1	9.5	37.7	16.4	22.8
FY19	54,243.2	16.4	7,525.2	13.9	4,527.5	(12.0)	8.4	42.9	13.3	18.4
FY20e	52,799.7	(2.7)	8,044.6	15.2	5,210.1	15.1	9.7	37.2	13.9	16.8
FY21e	35,924.5	(32.0)	4,367.2	12.2	2,161.0	(58.5)	4.0	89.8	5.6	7.0
FY22e	68,051.1	89.4	10,920.4	16.0	7,190.9	232.8	13.3	27.0	16.6	21.1

Kansai Nerolac Q4FY20 STANDALONE results were below our estimates

Revenues declined by 14% YoY to Rs 9880.4mn. **Decorative business (~55% Revenue)** upto March 2020 witnessed double digit growth and **Auto business (~33% Revenues)** was slow in Q4FY20 and recorded double digit negative growth.

April-2020 was total washout month.

Q4FY20 EBIDTA was down by 14.6% YoY to Rs 1278mn / **EBIDTA margins stood** at 12.9% as against 13% YoY and 15.4% QoQ mainly on account of higher other expenses that stood at 19% of Revenues as against 18% YoY basis.

Raw Materials as percentage to Revenues was 61.5% v/s 63.7% YoY and 62.5% QoQ

Q4FY20 PBT declined by 30% YoY to Rs 985mn aided by 36.5% YoY rise in **depreciation** to Rs 320.4mn (on account of new plant commencement at Goindwal Sahib near Amritsar in Punjab)

Other Income was down by 72% YoY to Rs 40mn.

Tax rate stood at 27.4% as against 34% YoY on account of adoption to the new tax regime.

Q4FY20 PAT declined by 23% YoY to Rs 715mn.

For full year FY20

Consolidated Sales declined by 3% to Rs 52800mn. **EBIDTA margins** stood at 15.2% v/s 13.9% YoY in **absolute terms EBIDTA** stood at Rs 8044.6mn up by 7% YoY. **PAT** increased by 15.1% YoY to Rs 5210mn mainly on account of **lower tax rate** (22.7% v/s 35.8% YoY).

For FY20 **Kansai recorded an EPS** of Rs 9.67 v/s 8.4 YoY

Conference Call KTA

Demand FY21:

-1st 42 days 0 billing, green zones shops have started. However management alluded to the fact that this could be inventory filling or un-finished work demand. Logistics is a issue to fulfil demand but dealers now coming with own vehicles.

-Tier 3 and 4 sales have started however metros and towns remain shut. Also considering better harvest and lower penetration of organised paint industry **tier 3 and 4 are expected to do better.**

(Kansai's market share in tier3 and 4 higher than industry)

-The company has not given any budget to the Japanese parent as well for FY21.

-Out of 106 **depots** 90 now operational.

- Labour: 60 to 70% are local

-Till now no major liquidity issue has come up (early days)

Comfort: Kansai has ~4690mn cash and equivalents on books as of FY20.

It had a positive free cash flow of Rs 1706mn v/s (-ve) Rs 6735mn YoY (as per presentation) mainly on account of higher capex last year in FY19.

Diversified business to tide Auto dependence in FY20:

- Entered into Auto Refinish segment 3 years back and now has 12% market share (M. Size ~1200 to 1500crs), advantage over unorganised peers in this segment is that it has original paints that OEM use.
- In case of **Powder Coating**, Kansai is one of the few companies that makes positive margins. Kansai's market share is now 35%. Recently acquired company Marpol improved margins from 5.2% to 8.7%



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3. Kansai Prema Construction Chemicals range launched and margin of this subsidiary also improved to 9% from 6.4%

4. Nerofix Adhesives: JV launched with Polygel

5. Overseas business:

Nepal Sales +2% YoY EBIDTA Margins 16.4% v/s 16.8% YoY

Bangladesh Sales +20% YoY EBIDTA turned positive to 1.8%

Srilanka Sales +3.5% Sales

(all subsidiaries and JV's put together contributed ~ (6.8% to Revenue {consil less stand}) at Rs 3369mn v/s 2507mn i.e. 34% growth including in-organic growth.

Growth FY20: Decorative +4% value and +5% volume (as low end emulsion grew better / Solider brand now constitutes 3.5% of sales grew 18% YoY in FY20). **Demand in Decorative was slow post H1FY20 / Jan-20 and Feb-20 witnessed double digit growth mainly in the low-end emulsion segment.**

In case of **Decorative, Kashmir** problem in FY20 **contributed 0.7% of de-growth on overall revenues as Kansai's "Market share there is 60%"**

Auto -17% value and -19% volume. Auto prior to Covid de-grew by 16-20%

General Industrial +4% value growth

Network: Dealer in decorative = 25000 (includes +3000 net additions in FY20)

Raw Material: prices are benign, however carry some un-sold high cost inventory thus benefit could continue to 1 to 2 quarters depending on the availability of low cost raw materials.

Ad-spends: FY20 was ~5% of Revenues would see some savings in this cost going forward

Employee cost: all employees are permanent and 80% of this cost is fixed

Capex FY21: Rs 1200mn on existing projects and 700mn on maintenance / capacity to increase from 518 mn litres to 550mn litres

Other KTA's

Decorative industry 70-75% demand is from re-painting.

46% of Kansai's decorative paint is water base.

View Going forward: We believe there is no-doubt Kansai including all paint companies would be impacted in the current year as April which constitutes 13% of full year paint demand has been a complete washout.

Management did mention their fixed cost is 50% of current year sales hence they have enough reasonable buffer to tide-away this difficult period. However, Kansai would be a major beneficiary whenever the uptake in demand and economy revival sets in with a



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diversified business portfolio (55% Decorative, 32% auto, 13% industrial) strong balance sheet and market leadership in Auto paints (with 57% market share) the pick-up whenever it happens. **Valuations at CMP of Rs 360: is 37x FY20 actual EPS of Rs 9.7, 90x FY21e EPS of Rs 4 and 27x FY22e EPS of Rs 13.3 we maintain Buy on dips with target price of Rs 438.**

Standalone financials (Rs. Mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)		FY20	FY19	% growth
Net Sales	9809.70	11419.80	-14.1%	12404.30	-20.9%		49152.00	51388.60	-4.4%
Other Operating Income	70.7	111.80	-36.8%	77.10	-8.3%		279.70	347.60	-19.5%
Total Net Sales	9880.40	11531.60	-14.3%	12481.40	-20.8%		49431.70	51736.20	-4.5%
Other Income	39.9	144.5	-72.4%	124.2	-67.9%		268.60	618.80	-56.6%
Total Income	9920.30	11676.10	-15.0%	12605.60	-21.3%		49700.30	52355.00	-5.1%
Expenses									
Cost of material consumed	6519.5	7725.6	-15.6%	6041.8	7.9%		27221.80	32417.70	-16.0%
Purchase of stock in trade	786	703.3	11.8%	736.4	6.7%		2842.30	2587.40	9.9%
Changes of inventories	-1227.4	-1080.3	13.6%	1022.4	-220.1%		512.10	-1979.80	-125.9%
Total raw material consumed	6078.1	7348.6	-17.3%	7800.6	-22.1%		30576.2	33025.3	-7.4%
Gross Profit	3802.30	4183.00	-9.1%	4680.80	-18.8%		18855.50	18710.90	0.8%
GPM	38.5%	36.3%		37.5%			38.1%	36.2%	
Employee Expenses	649	609.2	6.5%	675.7	-4.0%		2693.80	2553.80	5.5%
Other Expenses	1875.4	2077.5	-9.7%	2086.3	-10.1%		8345.50	8737.10	-4.5%
Total	8602.5	10035.3	-14.3%	10562.6	-18.6%		41615.5	44316.2	-6.1%
Operating Profit	1277.90	1496.30	-14.6%	1918.80	-33.4%		7816.20	7420.00	5.3%
Margins (%)	12.9%	13.0%		15.4%			15.8%	14.3%	
Depreciation	320.4	234.8	36.5%	314.2	2.0%		1198.80	904.70	32.5%
EBIT	997.40	1406.00	-29.1%	1728.80	-42.3%		6886.00	7134.10	-3.5%
Finance Cost	12.9	0		12.1			50.00	0.00	
PBT	984.50	1406.00	-30.0%	1716.70	-42.7%		6836.00	7134.10	-4.2%
Taxes	269.9	477.8	-43.5%	490.2	-44.9%		1482.00	2460.60	-39.8%
NPAT	714.60	928.20	-23.0%	1226.50	-41.7%		5354.00	4673.50	14.6%
EPS	1.33	1.72		2.28			9.94	8.67	
% of sales									
Raw Materials	61.5%	63.7%		62.5%			61.9%	63.8%	
Employee Cost	6.6%	5.3%		5.4%			5.4%	4.9%	
Other Expenses	19.0%	18.0%		16.7%			16.9%	16.9%	
Tax Rate	27.4%	34.0%		28.6%			21.7%	34.5%	



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Kansai Nerolac Consolidated Financials (Rs. Mn)

P&L (Rs mn)	FY18	FY19E	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19E	FY20	FY21E	FY22E
Net Sales	46,580.8	54,243.2	52,799.7	35,924.5	68,051.1	Net Profit	5,144.0	4,527.5	5,210.1	2,161.0	7,190.9
Raw Materials	(28,135.6)	(34,617.6)	(32,586.1)	(21,554.7)	(41,511.2)	Add: Dep. & Amort.	770.7	1,062.8	1,421.2	1,526.1	1,604.8
Employee Cost	(2,350.8)	(2,834.1)	(3,103.7)	(3,103.7)	(3,755.5)	Cash profits	5,914.7	5,590.3	6,631.3	3,687.1	8,795.7
Other Expenses	(8,156.5)	(9,266.3)	(9,065.3)	(6,898.9)	(11,864.1)	(Inc)/Dec in					
Operating Profit	7,937.9	7,525.2	8,044.6	4,367.2	10,920.4	-Sundry debtors	(1,122.0)	(529.2)	(314.2)	1,964.4	(4,162.4)
Depreciation	(770.7)	(1,062.8)	(1,421.2)	(1,526.1)	(1,604.8)	-Inventories	(1,259.8)	(2,818.8)	1,027.1	2,701.8	(5,482.7)
PBIT	7,167.2	6,462.4	6,623.4	2,841.1	9,315.6	-Loans/advances	(1,205.8)	(2,448.2)	623.0	(517.3)	(577.7)
Other income	709.1	605.2	255.3	324.3	467.0	-Current Liab and Provisions	1,813.0	(361.9)	(336.7)	(2,300.2)	4,127.7
Interest	(6.7)	(99.7)	(209.1)	(209.1)	(88.4)	Change in working capital	(1,774.6)	(6,158.1)	999.2	1,848.7	(6,095.2)
PBT	7,869.6	6,967.9	6,669.6	2,956.3	9,694.2	CF from Oper. activities	4,140.1	(567.8)	7,630.5	5,535.9	2,700.5
Exceptionals	-	-	-	-	-	CF from Inv. activities	(3,360.0)	(1,820.3)	(5,456.2)	(3,000.0)	(1,500.0)
Profit before tax (post exceptional)	7,869.6	6,967.9	6,669.6	2,956.3	9,694.2	CF from Fin. activities	(2,020.3)	(285.9)	(1,216.1)	(781.7)	(3,708.2)
Provision for tax	(2,732.1)	(2,491.3)	(1,511.8)	(745.0)	(2,442.9)	Cash generated/(utilised)	(1,240.2)	(2,674.0)	958.2	1,754.1	(2,507.6)
Reported PAT	5,137.5	4,476.6	5,157.8	2,211.3	7,251.3	Cash at start of the year	4,876.4	3,636.2	962.1	1,920.3	3,674.5
MI	6.5	50.9	52.3	(50.3)	(60.3)	Cash at end of the year	3,636.2	962.1	1,920.3	3,674.5	1,166.8
Net Profit	5,144.0	4,527.5	5,210.1	2,161.0	7,190.9						
Adjusted Profit (excl Excepti	5,144.0	4,527.5	5,210.1	2,161.0	7,190.9						
Balance Sheet	FY18	FY19E	FY20	FY21E	FY22E	Ratios	FY18	FY19E	FY20	FY21E	FY22E
Equity capital	538.9	538.9	538.9	538.9	538.9	OPM	17.0	13.9	15.2	12.2	16.0
Reserves	30,784.3	33,624.4	37,064.1	38,393.1	42,815.5	NPM	10.9	8.3	9.8	6.0	10.5
Net worth	31,323.2	34,163.3	37,603.0	38,932.0	43,354.5	Tax rate	(34.7)	(35.8)	(22.7)	(25.2)	(25.2)
MI	163.8	200.9	216.8	267.1	327.4	Growth Ratios (%)					
Non Current Liabilities	912.2	1,310.4	1,844.0	1,844.0	1,844.1	Net Sales	14.9	16.4	(2.7)	(32.0)	89.4
Current Liabilities	8,900.0	9,504.3	9,172.4	6,872.2	9,999.8	Operating Profit	7.6	(5.2)	6.9	(45.7)	150.1
Equities and Liabilities	41,299.2	45,178.9	48,836.2	47,915.3	55,525.7	PBIT	7.4	(9.8)	2.5	(57.1)	227.9
Non Current Assets	13,944.4	17,965.4	20,914.6	21,403.6	21,323.8	PAT	1.1	(12.0)	15.1	(58.5)	232.8
Fixed Assets	13,792.5	17,618.4	19,231.7	19,705.6	19,600.8	Per Share (Rs.)					
Goodwill	22.7	195.8	197.8	197.8	197.8	Net Earnings (EPS)	9.5	8.4	9.7	4.0	13.3
Non Current Investments	7.1	9.6	8.5	8.5	8.5	Cash Earnings (CPS)	11.0	10.4	12.3	6.8	16.3
Deferred Tax Asset	-	-	-	-	-	Dividend	2.6	2.6	3.2	1.3	4.3
Long Term Loans and Advances	122.1	141.6	151.2	166.3	191.3	Book Value	58.1	63.4	69.8	72.2	80.4
ROU	-	-	1,325.4	1,325.4	1,325.4	Free Cash Flow	1.4	(4.4)	4.0	4.7	2.2
Current Assets	27,354.9	27,213.5	27,921.6	26,511.7	34,202.0	Valuation Ratios					
Current investments	5,199.6	1,955.6	3,051.0	4,051.0	4,051.0	P/E(x)	37.7	42.9	37.2	89.8	27.0
Inventories	8,291.8	11,110.6	10,083.5	7,381.7	12,864.5	P/B(x)	6.2	5.7	5.2	5.0	4.5
Trade Receivables	7,026.4	7,555.6	7,869.8	5,905.4	10,067.8	EV/EBIDTA(x)	23.3	25.4	23.5	42.7	17.3
Cash and Bank Balances	3,636.2	962.1	1,920.3	3,674.5	1,166.8	Div. Yield(%)	0.7	0.7	0.9	0.4	1.2
Short Term Loans and Advances	33.2	52.2	48.7	56.0	64.4	FCF Yield(%)	0.4	(1.2)	1.1	1.3	0.6
Other Current Assets	3,167.7	5,577.4	4,948.3	5,443.1	5,987.4	Return Ratios (%)					
Total Assets	41,299.2	45,178.9	48,836.2	47,915.3	55,525.7	ROE	16%	13%	14%	6%	17%
						ROCE	23%	18%	17%	7%	21%



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