

Kansai Nerolac

Performance lags leader

KNPL's 3Q performance (18% YoY; Rs. 14.7bn vs HSIE: Rs. 14.3bn) was nothing to scoff at. However, its decorative segment (volume/value growth estimated at 23/18.6%) did lag that of market leader APNT (33/26% YoY). Industrial Coating grew at 17% (off a low base). Performance gap was attributed to higher primers/putties sold by the leader. GM expansion lagged that of APNT's (93bp YoY to 39.2% vs APNT +207bp) as mix continues to normalise in favour of low-margin industrials business. While the all-round demand recovery is heartening, RM inflation could weigh on profitability, going forward (already factored in). We largely maintain our EPS estimates and DCF-based TP of Rs. 650/sh (implying 51x Sept-22 P/E).

- 3QFY21 highlights:** Revenue grew 18% YoY to Rs. 14.7bn (HSIE: 14.3bn). Decorative business grew 23/18.6% in volume/value terms and industrial business grew by 17% (HSIE) as pent-up demand timing, strong festive season, share gains from unorganised, recovery in metro/tier-1 catchments, and strong Auto sales underpinned growth. Within Non-Auto Industrials, Powder Coatings continues to do well. On the international front, Nepal clocked strong double-digit growth (led by pent-up demand) post market re-opening in Dec-20. Sri Lanka remains impacted, though it is witnessing signs of recovery. Bangladesh sustained its growth momentum (high double-digit growth YoY). Among subsidiaries, Marpol and Perma grew in high double digits. GM expansion lagged that of APNT's (93bp YoY to 39.2% vs APNT +207bp) as mix continues to normalise in favour of lower-margin industrials business. EBITDAM expanded 430bp to 19.7% (HSIE: 18.6%). as company continued to keep a tight lease on costs. PAT grew 65% to Rs. 2bn (HSIE: Rs. 1.75bn).
- Outlook:** While all-round demand recovery is heartening, RM inflation could weigh on profitability, going forward (already factored in). While Decorative business continues to perform well and Industrial performance progressively improves, a secular recovery in the latter can't still be called out. Hence, we remain cautiously optimistic on KNPL. We largely maintain our EPS estimates and DCF-based TP of Rs. 650/sh, (implying 51x FY23 P/E).

Quarterly financial summary

(Rs mn)	3QFY21	2QFY20	YoY (%)	1QFY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	15,926	13,319	19.6	13,832	15.1	54,243	52,800	48,439	57,244	64,708
EBITDA	3,044	1,977	54.0	2,686	13.4	7,525	8,045	8,394	9,470	10,898
APAT	2,038	1,146	77.8	1,682	21.2	4,477	5,158	5,194	5,948	6,838
EPS (Rs)	3.8	2.1	77.8	3.1	21.2	8.3	9.6	9.6	11.0	12.7
P/E (x)						70.3	61.0	60.6	52.9	46.0
EV/EBITDA (x)						43.2	40.4	38.4	33.8	29.6
Core RoCE(%)						12.8	13.6	12.9	14.1	14.5

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	48,439	47,981	1.0	57,244	56,693	1.0	64,708	63,912	1.2
Gross Profit	19,149	19,183	(0.2)	22,347	22,396	(0.2)	25,130	25,111	0.1
Gross Profit Margin(%)	39.5	40.0	(45 bps)	39.0	39.5	(47 bps)	38.8	39.3	(45 bps)
EBITDA	8,394	7,623	10.1	9,470	9,398	0.8	10,898	10,777	1.1
EBITDA margin (%)	17.3	15.9	144 bps	16.5	16.6	(3 bps)	16.8	16.9	(2 bps)
APAT	5,194	4,623	12.4	5,948	5,906	0.7	6,838	6,764	1.1
APAT margin (%)	10.7	9.6	109 bps	10.4	10.4	(3 bps)	10.6	10.6	(2 bps)
EPS (Rs)	9.6	8.6	12.4	11.0	11.0	0.7	12.7	12.6	1.1

Source: Company, HSIE Research

ADD

CMP (as on 5 Feb 2021)	Rs 584
Target Price	Rs 650
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 650	Rs 650
	FY22E	FY23E
EPS %	+0.7	+1.1

KEY STOCK DATA

Bloomberg code	KNPL IN
No. of Shares (mn)	539
MCap (Rs bn) / (\$ mn)	315/4,327
6m avg traded value (Rs mn)	179
52 Week high / low	Rs 680/294

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.3	32.2	15.9
Relative (%)	(10.4)	(2.5)	(7.4)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	74.99	74.99
FIs & Local MFs	8.1	8.04
FPIs	4.03	4.17
Public & Others	12.88	12.80
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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