

Q4FY21 result review
and TP revision

Paints

Target price Rs625

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 2.1	↓ 2.1
EBITDA	↓ 3.6	↓ 3.6
EPS	↓ 4.5	↓ 4.7

Target price revision

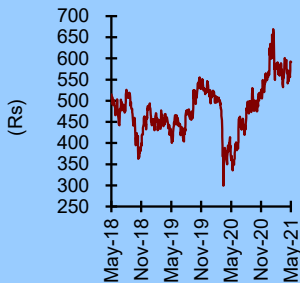
Rs625 from Rs650

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	75.0	75.0	75.0
Institutional investors	16.2	16.5	16.6
MFs and others	8.1	8.0	7.7
Banks, FI's, Insurance co	4.0	4.1	4.9
FIs	4.2	4.4	4.0
Others	8.8	8.5	8.4

Source: BSE

Price chart



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Kansai Nerolac Paints

ADD
Maintained

Another (margin) miss story; not unexpected though **Rs566**

In our view, paint industry, particularly peers and larger players have likely outperformed Kansai Nerolac in 4Q. Highlights from its 4Q: (1) After strong Q4FY21 and healthy sales in three weeks of Apr'21, sales have declined. Almost 70% of depots and 90% of dealers are closed now, (2) Kansai has raised prices by 2.5% in Mar'21, partly covering input inflation of ~13%. It is in discussion with Automotive OEMs for price hikes and have raised prices by 3-8% of some sub-segments of Industrial paints and (3) it continues with the capex guidance of Rs2.8bn in FY22 as, part of it, is critical for value engineering. In FY22, we expect tailwinds of (1) recovery in automotive sector and likely market share gains due to usage of powder coating instead of liquid paints, (2) recovery in metros leading to higher revenues of premium paints and (3) higher contribution from new segments such as waterproofing and adhesives. **Retain ADD; TP Rs625.**

- **Q4FY21 performance:** Kansai reported revenue, EBITDA and PAT growth of 35.1%, 59% and 89.1%, respectively. Decorative as well as Industrial paint segments reported volume led double digit growth. Gross margin declined 440bps due to higher input prices but EBITDA margin expanded 220bps due to cost savings measures initiated post covid and operating leverage.
- **Localised lockdown impacting volume off-take:** While Kansai had healthy growth in three weeks of Apr'21, localized lockdowns impacted volumes post that. As of now 70% depots and 90% dealers of the company are closed. While Projects have continued, they are facing labour shortage. Some of the OEMs are closed/ slowed down the manufacturing activities. It has impacted Industrial paints segment too.
- **Steep input inflation also a cause of concern:** While paint companies generally pass on the inflation, we believe inflation coupled with weak demand is a cause of concern. The input price inflation is ~13%. The company has raised prices by 2.5% of its decorative paints in Mar'21. If the inflation remains high even after lockdown is lifted, it may impact the gross margins. While the company is still in discussion with automotive OEMs regarding prices hikes, it has raised prices in powder coating by 8%, performance & general coating by 3% and refinish by 5%.
- **Performance of new segments is crucial:** Kansai has entered new segments such as waterproofing, adhesives and putty in past three years. It is also focusing on popular and economy emulsions through 'Soldier' brand. It has also stepped up the investments in International subsidiaries (Sri Lanka, Bangladesh and Nepal). We believe performance of these new initiatives will be crucial in FY22.
- **Maintain ADD:** We model revenue and PAT CAGRs of 15.4% and 16% respectively over FY21-23E. We maintain ADD rating with DCF based TP of Rs625 (47x FY23E). Key risks: continued slow-down due to covid and steep inflation in input prices.

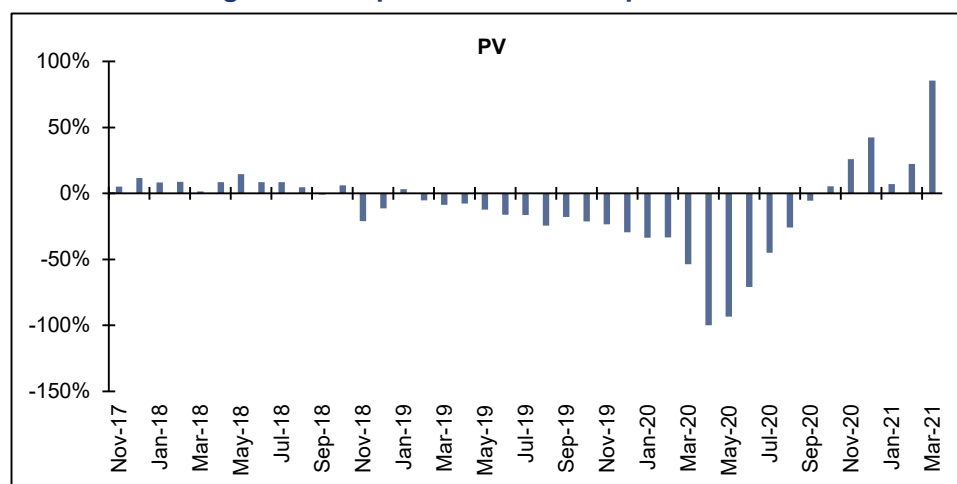
Market Cap	Rs305bn/US\$4.2bn
Reuters/Bloomberg	KANE.BO/KNPL IN
Shares Outstanding (mn)	538.9
52-week Range (Rs)	669/335
Free Float (%)	35.0
FII (%)	4.0
Daily Volume (US\$'000)	2,687
Absolute Return 3m (%)	(3.5)
Absolute Return 12m (%)	59.1
Sensex Return 3m (%)	(3.4)
Sensex Return 12m (%)	58.2

Year to March	FY20	FY21P	FY22E	FY23E
Net Revenue (Rs mn)	52,800	50,742	60,353	67,626
Net Profit (Rs mn)	5,160	5,297	6,293	7,140
Dil. EPS (Rs)	9.6	9.8	11.6	13.1
% Chg YoY	15.2	1.9	18.8	13.4
P/E (x)	59.1	58.0	48.9	43.1
CEPS (Rs)	12.2	12.8	14.7	16.5
EV/EBITDA (x)	38.0	35.5	31.0	27.4
Dividend Yield (%)	0.6	0.9	0.7	0.8
RoCE (%)	13.7	12.7	13.8	14.3
RoE (%)	14.4	13.5	14.7	15.1

Table 1: Q4FY21 financial performance*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	% YoY	Q3FY21	% QoQ
Net revenues	14,596	10,801	35.1	15,926	(8.4)
Raw materials	9,552	6,593	44.9	9,777	(2.3)
% of sales	65%	61%	440 bps	61%	405 bps
Employee costs	787	748	5.1	760	3.5
% of sales	5.4%	6.9%	-154 bps	4.8%	62 bps
Other expenditure	2,123	2,117	0.3	2,345	(9.5)
% of sales	15%	20%	-506 bps	15%	-18 bps
Total expenditure	12,461	9,459	31.7	12,881	(3.3)
EBITDA	2,135	1,342	59.0	3,044	(29.9)
EBITDA margin (%)	14.6%	12.4%	220 bps	19.1%	-449 bps
Other income	109	38	184.6	143	(23.6)
PBDIT	2,244	1,381	62.5	3,188	(29.6)
Depreciation	482	384	25.5	399	20.6
PBIT	1,762	997	76.8	2,788	(36.8)
Interest	78	62	25.7	50	54.7
PBT	1,684	935	80.1	2,738	(38.5)
Tax	448	281	59.3	693	(35.3)
% of PBT	27%	30%	-349 bps	25%	130 bps
PAT	1,236	654	89.1	2,045	(39.6)
Extraordinary items	-	-		-	
Reported PAT	1,236	654	89.1	2,045	(39.6)
Adj. PAT	1,236	654	89.1	2,045	(39.6)

Source: Company data, I-Sec research

Chart 1: Passenger vehicle production turned positive

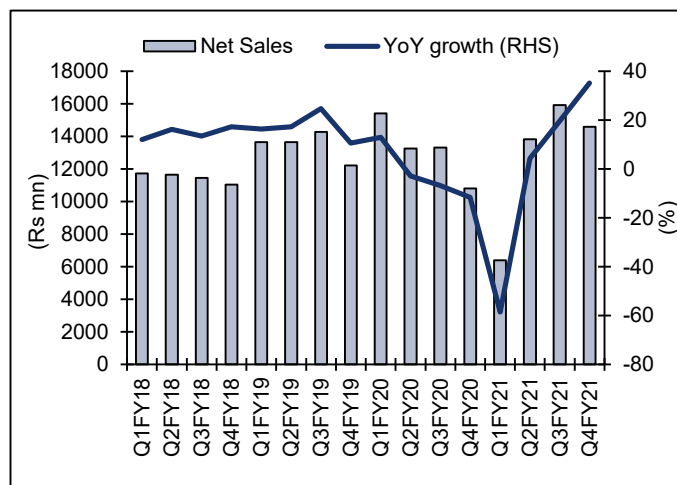
Source: Company data, I-Sec research

Q4FY21 result and conference call highlights

- The company reported strong double digit volume led growth in both the segments i.e. Decorative and Industrials.
- While it has not gained market share in Decoratives, it has gained share in industrial paints.
- The input prices have increased by 13-14% but the company has raised prices of Decorative paints by 2.5% in Mar'21. It takes care of 5% inflation in input prices.
- Investments in 'Digital' is helping the company as well as the trade to improve the productivity. Kansai has also started raising digital invoices.
- The company added more products/ services under powder coating in FY21.
- It has increased prices by 8% in powder coating, 3% in performance & general coating and 5% in refinish.
- The company plans to focus on 'Soldier' brand. It also plans to focus on construction and adhesive segments.
- It also aims to focus on ESG. It wants to be in top quartile of ESG index.
- Though there is negligible supply constraint, there is demand constraint for paints with closure of retail stores and fear among consumers.
- 70% of the depots are closed and 90% of the dealers are closed.
- Most OEMs have also closed manufacturing units. Hence, there is limited demand for Industrial paints too.
- The sales were good till 3rd week of April'21. However, there is decline in sales post 20th April'21.
- While the Projects (construction activities) are running, there is labour shortage. Kansai is also not strong in Projects segment.
- Gross margin pressure remains high and price hikes are inevitable to pass on additional cost burden and maintain margins.
- The company is planning to maintain / streamline sales first instead of focusing on increasing/ maintaining margins.
- Price hikes in auto sector depends on contracts with OEMs. It generally takes time to hike prices.
- The erosion in margins in Q4FY21 is largely due to change in revenue mix attributable to higher revenue share of automotive paints.
- In first three weeks of April'21, all regions were doing well in India.
- There was no increase in dealer count in FY21.

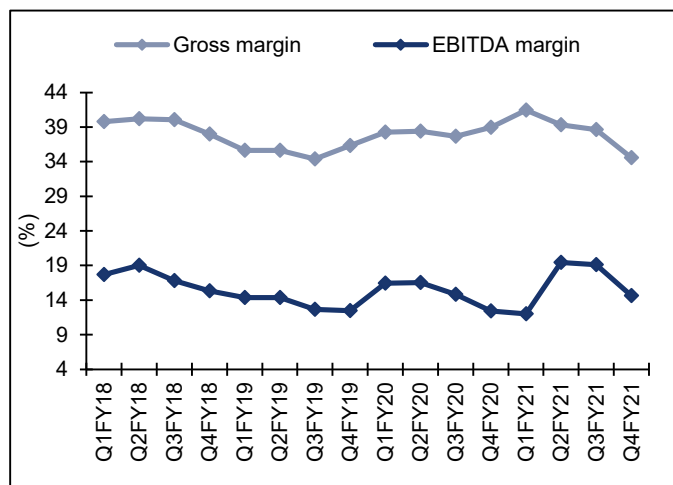
Operational highlights (Quarterly)

Chart 2: Revenues and Growth rates



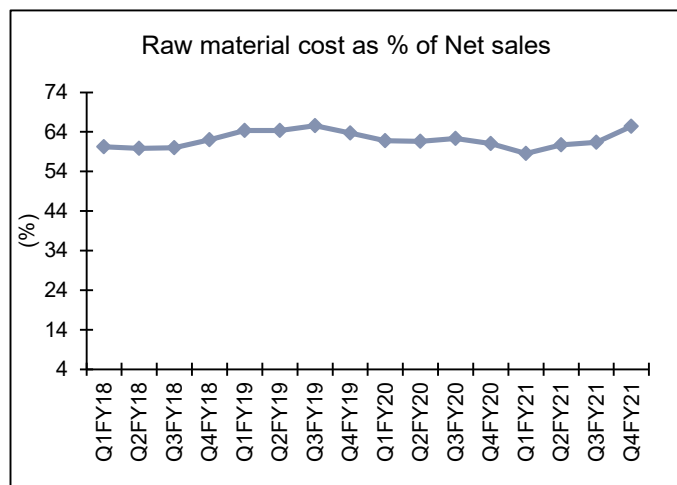
Source: Company data, I-Sec research

Chart 3: Gross and EBITDA margins



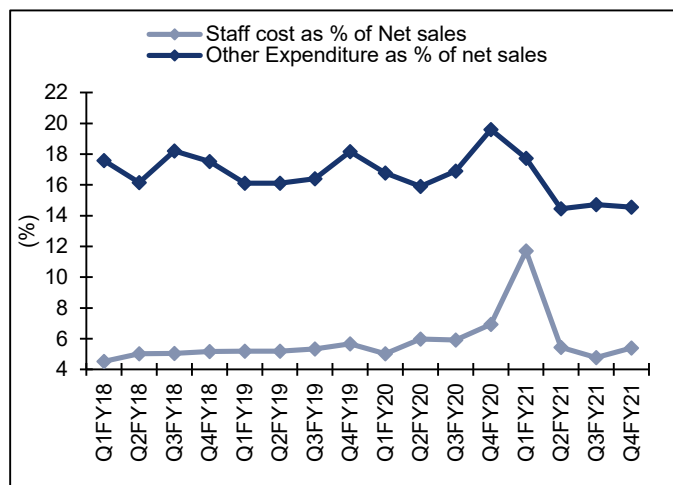
Source: Company data, I-Sec research

Chart 4: Raw material cost



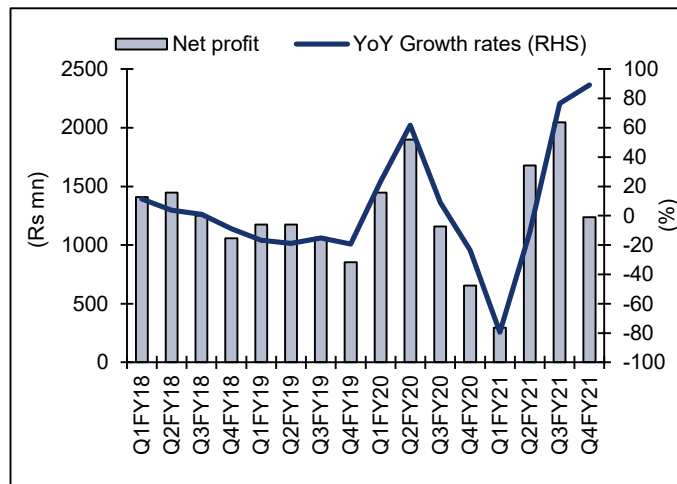
Source: Company data, I-Sec research

Chart 5: Staff and other expenditure



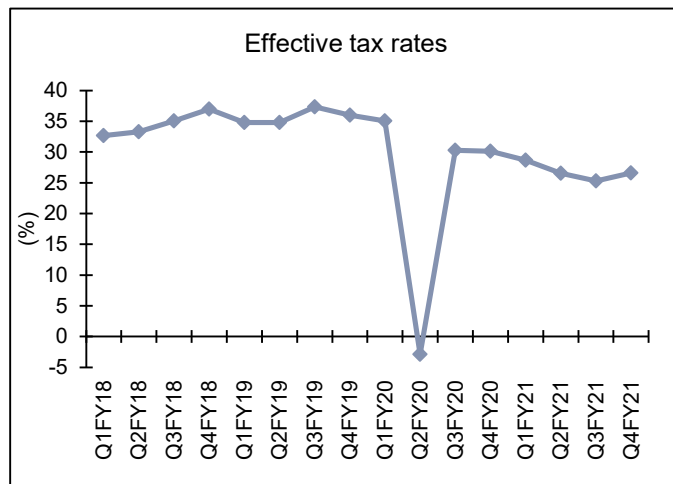
Source: Company data, I-Sec research

Chart 6: Net profit and growth rates



Source: Company data, I-Sec research

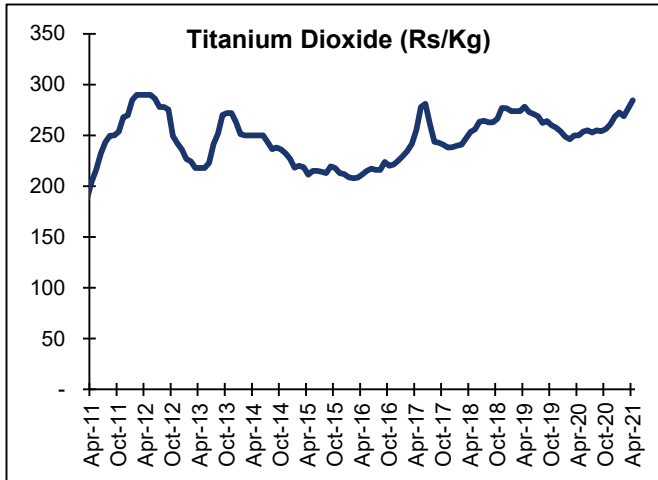
Chart 7: Effective tax rate



Source: Company data, I-Sec research

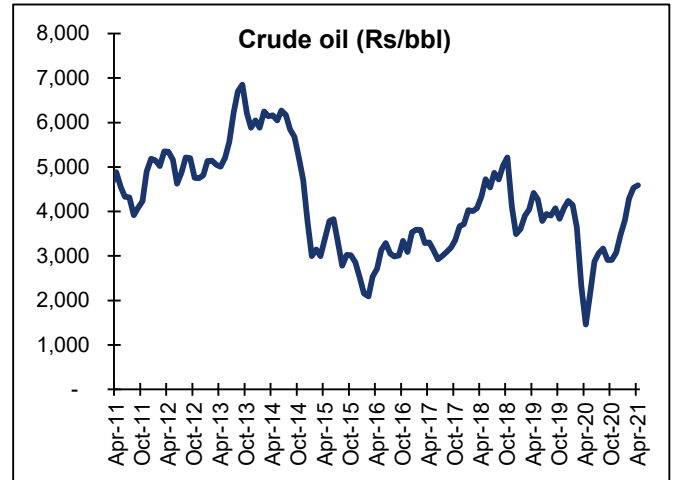
Raw material charts

Chart 8: Titanium di-oxide



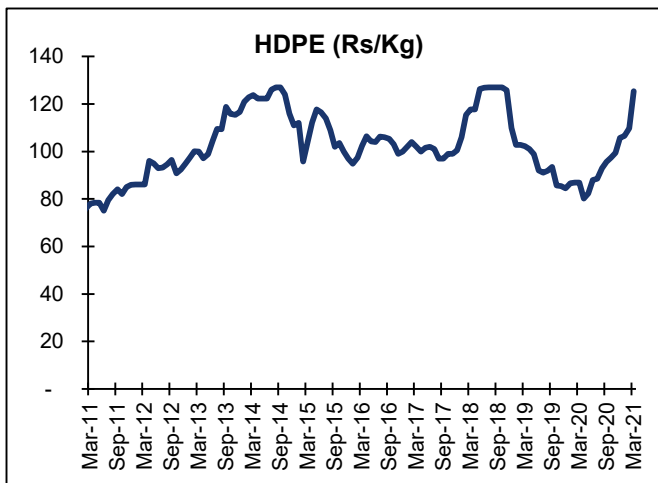
Source: Company data, I-Sec research

Chart 9: Crude oil



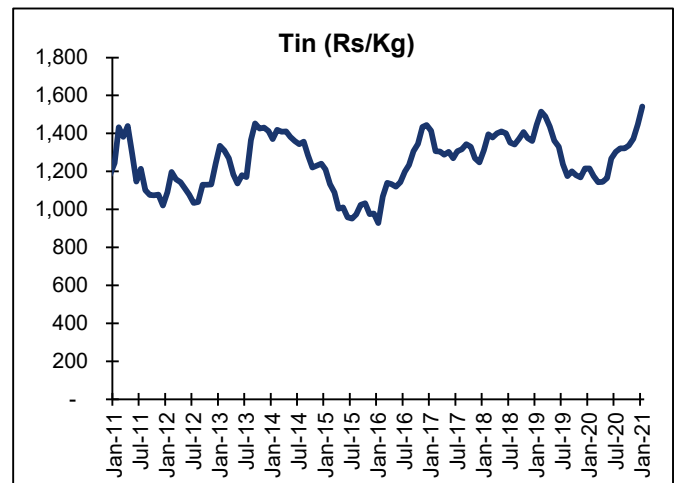
Source: Company data, I-Sec research

Chart 10: Packaging material - HPDE



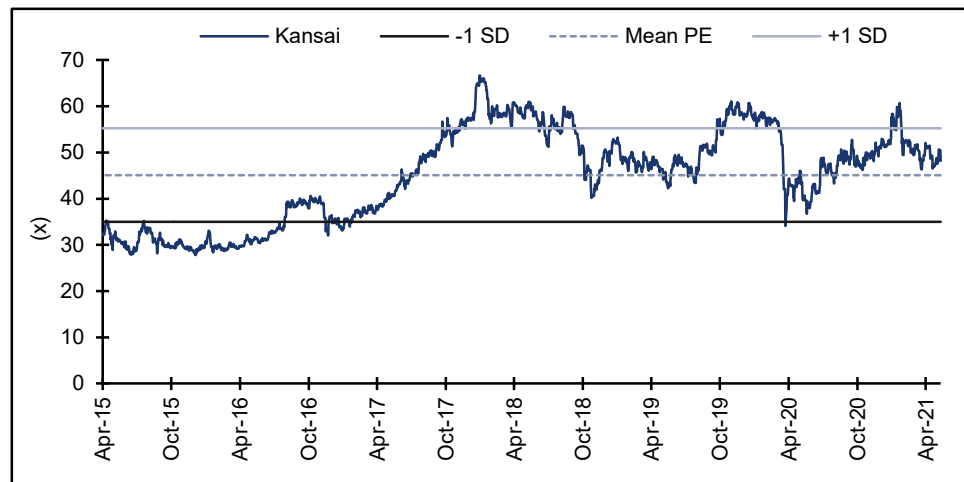
Source: Company data, I-Sec research

Chart 11: Packaging material - Tin



Source: Company data, I-Sec research

Chart 12: Mean P/E and standard deviations



Source: Company, I-Sec research

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Revenues	52,800	50,742	60,353	67,626
Operating Expenses	44,755	42,110	50,500	56,515
EBITDA	8,045	8,633	9,853	11,111
% margins	15.2%	17.0%	16.3%	16.4%
Depreciation & Amortisation	1,421	1,653	1,677	1,835
Gross Interest	209	237	244	244
Other Income	255	382	412	429
Recurring PBT	6,670	7,124	8,343	9,461
Less: Taxes	1,512	1,867	2,100	2,381
Less: Minority Interest	(54)	(41)	(50)	(60)
Net Income (Reported)	5,212	5,298	6,293	7,140
Extraordinaries (Net)	52	1	-	-
Recurring Net Income	5,160	5,297	6,293	7,140

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	21,834	25,098	29,928	34,974
of which cash & cash eqv.	1,920	1,245	1,685	3,474
Total Current Liabilities & Provisions	7,674	10,909	12,974	14,531
Net Current Assets	14,160	14,189	16,954	20,444
Investments	6,249	9,047	9,047	9,047
Net Fixed Assets	18,864	18,922	20,245	21,410
Capital Work-in-Progress	1,691	2,069	2,069	2,069
Goodwill	198	198	198	198
Total Assets	41,162	44,425	48,512	53,167
Liabilities				
Borrowings	2,261	2,444	2,444	2,444
Deferred Tax Liability	1,081	1,089	1,089	1,089
Minority Interest	217	363	363	363
Equity Share Capital	539	539	539	539
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	37,064	39,990	44,077	48,732
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	37,603	40,529	44,616	49,271
Total Liabilities	41,162	44,425	48,512	53,167

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	6,579	6,910	7,920	8,915
Working Capital Changes	(493)	(704)	(2,325)	(1,700)
Capital Commitments	(4,360)	(2,089)	(3,000)	(3,000)
Free Cashflow	1,726	4,117	2,595	4,214
Cash flow from Investing Activities	(132)	(2,798)	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	1,252	183	-	-
Dividend paid	(1,698)	(2,829)	(2,156)	(2,425)
Change in Deferred Tax Liability	(186)	8	-	-
Chg. in Cash & Bank balances	958	(675)	439	1,789

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	9.6	9.8	11.6	13.1
Cash EPS	12.2	12.8	14.7	16.5
Dividend per share (DPS)	3.2	5.3	4.0	4.5
Book Value per share (BV)	69.8	75.2	82.8	91.4
Growth (%)				
Net Sales	-2.7	-3.9	18.9	12.1
EBITDA	6.9	7.3	14.1	12.8
PAT	15.2	1.9	18.8	13.4
Cash EPS	18.8	5.0	14.6	12.6
Valuation Ratios (x)				
P/E	59.1	58.0	48.9	43.1
P/CEPS	46.4	44.1	38.5	34.2
P/BV	8.1	7.5	6.8	6.2
EV / EBITDA	38.0	35.5	31.0	27.4
EV / Sales	5.8	6.0	5.1	4.5
Operating Ratios				
Raw Material / Sales (%)	61.7	62.0	63.2	63.2
Employee cost / Sales (%)	5.9	6.0	5.5	5.4
SG&A / Sales (%)	17.2	15.0	15.0	15.0
Other Income / PBT (%)	3.8	5.4	4.9	4.5
Effective Tax Rate (%)	22.7	26.2	25.2	25.2
Working Capital (days)	84	92	92	91
Inventory Turnover (days)	69	85	85	85
Receivables (days)	54	68	68	68
Payables (days)	66	104	102	102
Net D/E Ratio (x)	0.1	0.1	0.1	0.0
Profitability Ratios (%)				
Net Income Margins	9.8	10.4	10.3	10.5
RoACE	13.7	12.7	13.8	14.3
RoAE	14.4	13.5	14.7	15.1
Dividend Payout	32.9	53.8	34.5	34.3
Dividend Yield	0.6	0.9	0.7	0.8
EBITDA Margins	15.2	17.0	16.3	16.4

Source: Company data, I-Sec research

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