

Kansai Nerolac Paints (KNPL IN)

Rating: ACCUMULATE | CMP: Rs539 | TP: Rs548

Decorative volumes up ~12%; Auto paints drag

Quick Pointers:

- Decorative paint sales up 8.5%; Decorative volumes up in double digit
- Auto paints to remain under pressure

Kansai reported 3.9% sales decline as automotive paints volumes declined by ~30% despite double digit volume growth in decorative paints. Though decorative paint business has slowed down QoQ (prolonged monsoons, flooding in key states and lower off-take in Kashmir - KNPL has 60% share), structural drivers like shift towards organized sector, housing push in Tier2/3 cities and shorter painting cycle.

We believe that demand in Auto sector has bottomed out and is likely to see slow up-tick, however post festival season trend needs to be watched out for given liquidity concerns and uncertainty over BSVI implementation. We believe that relatively stable input costs and lower contribution from industrial segment shall enable 210bps gross margin expansion in FY20.

We increase our FY20 and FY21 EPS by 8.3% and 2.9% respectively mainly led by one-time deferred tax benefit in FY20. We estimate 10.7% sales CAGR over FY19-22 with 5.1% sales growth in FY20 with double digit volume growth in Decorative paints and double digit volume decline in Automotive paints. We estimate 17.6% Adj. PAT CAGR over FY19-22 (12.5% PBT CAGR) and value the stock at 41xSept21 EPS of Rs12.2 to arrive at a target price of Rs548 (earlier 507 at 40xJune21). Retain Accumulate.

Sales decline 3.9%; PBT up 0.6%: Net Sales declined by 3.9% to Rs 12.44bn. Decorative segment sales grew ~8% with double digit volume growth despite extended monsoons, floods key states and low off-take in Kashmir (where Kansai has a major presence). Industrial paints dragged performance due to unprecedented slowdown in automotive sector. Gross margins expanded by 290bps YoY led by benign input costs (up 10bps QoQ). EBITDA increased 9.2% to Rs 2.13bn with 210bps margin expansion despite increase in staff costs and other expenses by 70bps and 10bps respectively. PBT remained flatish with 0.6% growth as other income declined by 71.8% and depreciation increased by 24.1%. Adj. PAT increased 58.5% to Rs 1.93bn mainly led by reversal of deferred tax leading to a negative tax rate. Kansai commenced commercial operations at the Amritsar, Punjab plant in 2Q.

November 1, 2019

Q2FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	548		507	
Sales (Rs. m)	54,400	61,769	55,141	62,560
% Chng.	(1.3)	(1.3)		
EBITDA (Rs. m)	9,175	10,268	9,036	10,215
% Chng.	1.5	0.5		
EPS (Rs.)	12.6	12.6	10.9	12.2
% Chng.	8.3	3.0		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	51,736	54,400	61,769	70,102
EBITDA (Rs. m)	7,807	9,175	10,268	11,398
Margin (%)	15.1	16.9	16.6	16.3
PAT (Rs. m)	5,061	6,338	6,790	7,595
EPS (Rs.)	9.4	11.8	12.6	14.1
Gr. (%)	(7.6)	25.2	7.1	11.8
DPS (Rs.)	2.6	2.6	3.3	3.8
Yield (%)	0.5	0.5	0.6	0.7
RoE (%)	15.5	17.3	16.5	16.5
RoCE (%)	21.0	21.6	21.4	21.4
EV/Sales (x)	5.6	5.2	4.5	3.9
EV/EBITDA (x)	36.8	30.6	27.2	24.1
PE (x)	57.3	45.8	42.7	38.2
P/BV (x)	8.5	7.5	6.7	6.0

Key Data

KANEBO | KNPL IN

52-W High / Low	Rs.572 / Rs.370
Sensex / Nifty	40,165 / 11,891
Market Cap	Rs.290bn / \$ 4,094m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.198.61m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	4.16
Domestic Institution	11.25
Public & Others	9.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.6	22.1	42.7
Relative	0.7	18.6	22.3

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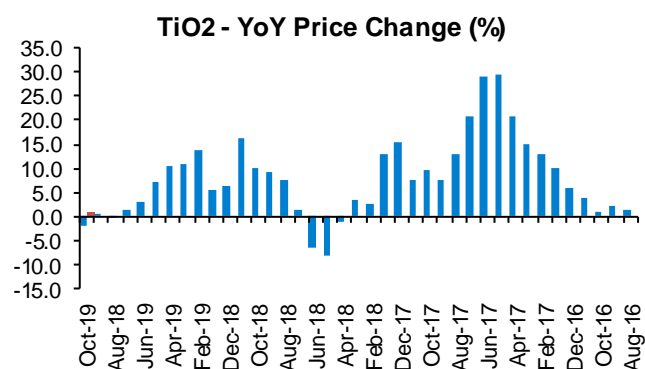
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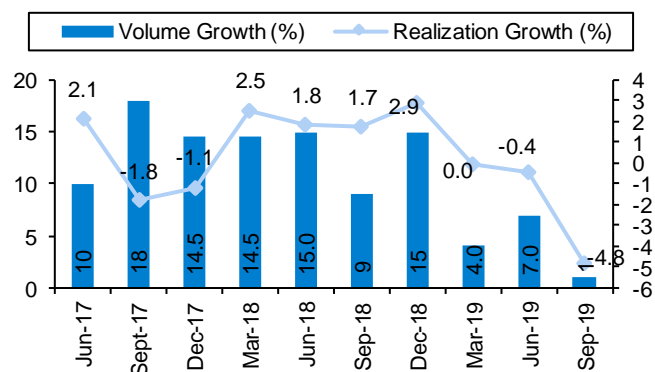
Exhibit 1 : Sales decline 3.9% despite double digit volumes in decorative business

	Q2FY20	Q1FY19	YoY gr. (%)	Q1FY20	1HFY20	1HFY19	YoY gr. (%)
Net Sales	12,435	12,939	(3.9)	14,635	27,070	26,698	1.4
Gross Profit	4,774	4,596	3.9	5,598	10,372	9,864	5.2
% of NS	38.4	35.5		38.3	38.3	36.9	
Other Expenses	2,645	2,646	(0.0)	3,108	5,753	5,710	0.8
% of NS	21.3	20.4		21.2	21.3	21.4	
EBITDA	2,129	1,950	9.2	2,490	4,620	4,154	11.2
Margins %	17.1	15.1	2.1	17.0	17.1	15.6	1.5
Depreciation	286	231	24.1	278	564	435	29.8
Interest expense	12	-		13	25	-	
PBT from Operations	1,831	1,719	6.5	2,200	4,030	3,719	8.4
Other Income	39	140	(71.8)	65	105	276	(62.1)
PBT	1,870	1,859	0.6	2,265	4,135	3,995	3.5
Tax	(64)	639	(110.0)	786	722	1,377	(47.6)
Tax rate %	(3.4)	34.4		34.7	17.5	34.5	
Adjusted PAT	1,934	1,220	58.5	1,479	3,413	2,619	30.3

Source: Company, PL

Exhibit 2 : TiO2 is down 8.5% YTD; down 3.3% QoQ


Source: Company, PL

Exhibit 3 : Growth led by double digit Decorative volumes


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	51,736	54,400	61,769	70,102
YoY gr. (%)	12.8	5.1	13.5	13.5
Cost of Goods Sold	33,025	33,583	38,437	44,017
Gross Profit	18,711	20,817	23,332	26,085
Margin (%)	36.2	38.3	37.8	37.2
Employee Cost	2,554	2,774	3,088	3,505
Other Expenses	4,492	4,624	5,250	5,854
EBITDA	7,807	9,175	10,268	11,398
YoY gr. (%)	(4.9)	17.5	11.9	11.0
Margin (%)	15.1	16.9	16.6	16.3
Depreciation and Amortization	905	1,267	1,426	1,536
EBIT	6,903	7,908	8,842	9,862
Margin (%)	13.3	14.5	14.3	14.1
Net Interest	-	61	128	112
Other Income	619	245	360	399
Profit Before Tax	7,521	8,092	9,074	10,149
Margin (%)	14.5	14.9	14.7	14.5
Total Tax	2,461	1,753	2,284	2,555
Effective tax rate (%)	32.7	21.7	25.2	25.2
Profit after tax	5,061	6,338	6,790	7,595
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,061	6,338	6,790	7,595
YoY gr. (%)	(7.6)	25.2	7.1	11.8
Margin (%)	9.8	11.7	11.0	10.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,061	6,338	6,790	7,595
YoY gr. (%)	(7.6)	25.2	7.1	11.8
Margin (%)	9.8	11.7	11.0	10.8
Other Comprehensive Income	9	-	-	-
Total Comprehensive Income	5,070	6,338	6,790	7,595
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	9.4	11.8	12.6	14.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	21,068	24,715	27,225	29,735
Tangibles	20,889	24,536	27,036	29,536
Intangibles	179	179	189	199
Acc: Dep / Amortization	7,909	8,891	10,005	11,228
Tangibles	7,765	8,740	9,847	11,062
Intangibles	144	151	158	166
Net fixed assets	13,159	15,824	17,219	18,507
Tangibles	13,124	15,795	17,188	18,473
Intangibles	35	28	31	33
Capital Work In Progress	3,147	2,000	2,000	2,000
Goodwill	-	-	-	-
Non-Current Investments	1,222	1,233	1,244	1,256
Net Deferred tax assets	(1,051)	(1,104)	(1,159)	(1,217)
Other Non-Current Assets	3,910	1,241	1,413	1,510
Current Assets				
Investments	1,956	1,992	2,029	2,067
Inventories	10,528	9,705	11,246	11,246
Trade receivables	6,740	7,252	8,404	9,540
Cash & Bank Balance	814	7,606	9,343	13,555
Other Current Assets	1,539	1,632	1,853	2,103
Total Assets	43,059	48,538	54,814	61,854
Equity				
Equity Share Capital	539	539	539	539
Other Equity	33,706	38,355	43,001	48,127
Total Network	34,245	38,894	43,540	48,666
Non-Current Liabilities				
Long Term borrowings	97	50	50	50
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,319	7,052	8,456	10,124
Other current liabilities	1,348	1,438	1,609	1,797
Total Equity & Liabilities	43,059	48,538	54,814	61,853

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	7,134	8,092	9,074	10,149
Add. Depreciation	905	1,267	1,426	1,536
Add. Interest	-	61	128	112
Less Financial Other Income	619	245	360	399
Add. Other	(2,255)	2,711	(129)	(51)
Op. profit before WC changes	5,783	12,130	10,499	11,746
Net Changes-WC	203	998	(1,385)	425
Direct tax	(2,461)	(1,753)	(2,284)	(2,555)
Net cash from Op. activities	3,525	11,375	6,831	9,616
Capital expenditures	(3,714)	(2,785)	(2,822)	(2,824)
Interest / Dividend Income	-	-	-	-
Others	(831)	-	-	-
Net Cash from Invt. activities	(4,545)	(2,785)	(2,822)	(2,824)
Issue of share cap. / premium	0	-	-	-
Debt changes	(86)	(47)	-	-
Dividend paid	(1,689)	(1,689)	(2,144)	(2,469)
Interest paid	-	(61)	(128)	(112)
Others	-	-	-	-
Net cash from Fin. activities	(1,776)	(1,797)	(2,272)	(2,581)
Net change in cash	(2,795)	6,793	1,737	4,212
Free Cash Flow	(189)	8,590	4,009	6,792

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	13,507	11,532	14,635	13,922
YoY gr. (%)	18.0	4.5	6.4	7.6
Raw Material Expenses	8,842	7,349	9,036	7,661
Gross Profit	4,664	4,183	5,598	6,261
Margin (%)	34.5	36.3	38.3	45.0
EBITDA	1,770	1,496	2,490	3,616
YoY gr. (%)	(7.9)	(11.4)	13.0	85.5
Margin (%)	13.1	13.0	17.0	26.0
Depreciation / Depletion	235	235	278	286
EBIT	1,535	1,262	2,212	3,330
Margin (%)	11.4	10.9	15.1	23.9
Net Interest	-	-	13	12
Other Income	198	145	65	39
Profit before Tax	1,733	1,406	2,265	3,357
Margin (%)	12.8	12.2	15.5	24.1
Total Tax	606	478	786	(64)
Effective tax rate (%)	35.0	34.0	34.7	(1.9)
Profit after Tax	1,127	928	1,479	3,421
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,127	928	1,479	3,421
YoY gr. (%)	(9.9)	(12.3)	5.8	180.4
Margin (%)	8.3	8.0	10.1	24.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,127	928	1,479	3,421
YoY gr. (%)	(9.9)	(12.3)	5.8	180.4
Margin (%)	8.3	8.0	10.1	24.6
Other Comprehensive Income	(4)	20	(4)	(5)
Total Comprehensive Income	1,123	949	1,475	3,416
Av g. Shares O/s (m)	539	539	539	539
EPS (Rs)	2.1	1.7	2.7	6.3

Source: Company Data, PL Research

Key Financial Metrics

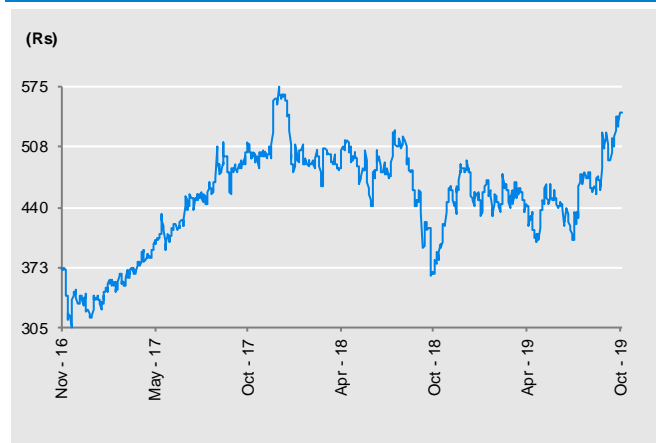
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	9.4	11.8	12.6	14.1
CEPS	11.1	14.1	15.2	16.9
BVPS	63.5	72.2	80.8	90.3
FCF	(0.3)	15.9	7.4	12.6
DPS	2.6	2.6	3.3	3.8
Return Ratio(%)				
RoCE	21.0	21.6	21.4	21.4
ROIC	15.4	22.9	22.1	24.2
RoE	15.5	17.3	16.5	16.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	77	66	66	56
Valuation(x)				
PER	57.3	45.8	42.7	38.2
P/B	8.5	7.5	6.7	6.0
P/CEPS	11.1	14.1	15.2	16.9
EV/EBITDA	36.8	30.6	27.2	24.1
EV/Sales	5.6	5.2	4.5	3.9
Dividend Yield (%)	0.5	0.5	0.6	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Volume Gr %	11.0	13.0	14.0	15.0
Gross Margins %	36.2	38.3	37.8	37.2

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Accumulate	507	496
2	29-Jul-19	Accumulate	479	434
3	4-Jul-19	Accumulate	464	442
4	2-May-19	Accumulate	464	419
5	5-Apr-19	Accumulate	498	467
6	29-Jan-19	Accumulate	498	430
7	7-Jan-19	Accumulate	474	467

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,855	1,767
2	Avenue Supermarts	Reduce	1,647	1,843
3	Britannia Industries	Accumulate	3,307	2,903
4	Colgate Palmolive	Reduce	1,267	1,564
5	Crompton Greaves Consumer Electricals	BUY	303	255
6	Dabur India	Hold	464	434
7	Emami	Accumulate	373	317
8	Future Retail	BUY	477	381
9	GlaxoSmithKline Consumer Healthcare	Hold	8,631	8,456
10	Havells India	Reduce	580	670
11	Hindustan Unilever	Accumulate	2,083	2,009
12	ITC	BUY	344	249
13	Jubilant FoodWorks	BUY	1,753	1,435
14	Kansai Nerolac Paints	Accumulate	507	496
15	Marico	Reduce	339	394
16	Nestle India	Hold	12,149	13,710
17	Pidilite Industries	Accumulate	1,429	1,393
18	Titan Company	BUY	1,282	1,296
19	Voltas	Hold	626	674

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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