

Strong performance on all fronts...

Kansai's Q3FY21 performance was ahead of our estimate with overall volume growth coming in at ~20% YoY (vs. I-direct estimate: 15%). Though on a low base, industrial paint segment volume growth at ~19% (I-direct estimate) was led by strong demand revival in automotive industry. On the decorative front, volume growth at ~21% YoY was supported by strong festive demand from rural and semi urban regions. Also, opening up of metro and tier 1 cities aided volume growth during the period. According to the management, KNL is going to continuously focus on launching new products in the decorative categories (that includes construction chemicals that is growing strongly on a relatively low base) and addition of dealer network (the company has ~27500 dealer network vs. 70,000 dealer network of industry leader). This, along with revival in industrial paint demand led by automotive industry (especially in tractor and passenger vehicle sales) and continuous demand from non-auto industry (like consumer durables, etc) would help overall volume growth for company, going forward. We model volume CAGR of ~12% for the company in FY20-23E.

Focus on newer product categories

Over last year, the company has increased focus on launching new products in the decorative paints and construction chemical business. While in Q3 the company launched three new products range under the decorative paint segment, it has also increased focus towards construction chemical business through its newly acquired subsidiary 'Perma'. According to the management, in size, the construction chemical business is ~10% of total paint industry and is growing at higher rate than paint industry. Further, to reduce dependency on automotive industry, KNL has also increased its focus on non-automotive segment such as coil, rebar, floor, pipe coatings and other specialty coatings in Industrial business.

Slower recovery in 9MFY21 compared to market leader

We believe Kansai Nerolac's recovery at 85% on 9MFY21 basis was slightly delayed compared to ~97% business recovery in Asian Paints during the same period. We believe this was largely on account of Kansai's industrial paint portfolio (~45% of FY20 sales), which was hit by delayed recovery in the automotive industry (~70% of total industrial paint). For 9MFY21, the EBITDA margin was up ~220 bps YoY while bottomline recovery was at 87% compared to 9MFY20.

Valuation & Outlook

Kansai is India's third largest decorative paint player with a market share of ~12%. We believe revenue, PAT will grow at CAGR of ~13%, 15%, respectively, in FY20-23E. We value the company at 45x FY23E earnings (i.e. ~20% discount to leader) and reiterate our **BUY** recommendation on the stock with a revised target price of ₹ 675 (earlier TP ₹ 605).

Key Financial Summary

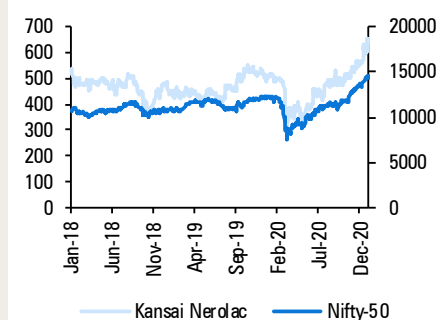
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR(FY20-23E)
Net Sales	5138.9	4915.2	4541.5	6200.9	7030.0	12.7
EBITDA	742.0	781.6	814.1	1019.4	1188.2	15.0
EBITDA Margin (%)	14.4	15.9	17.9	16.4	16.9	
Net Profit	467.3	535.4	525.2	685.2	806.2	14.6
EPS (₹)	8.7	9.9	9.7	12.7	15.0	
P/E (x)	66.3	57.9	59.0	45.2	38.4	
Price/Book (x)	9.0	8.2	8.0	7.2	6.4	
Mcap/Sales (x)	6.0	6.3	6.8	5.0	4.4	
RoE (%)	13.6	14.1	13.7	15.9	16.6	
RoCE (%)	20.2	17.6	17.9	20.7	21.6	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization (₹ Crore)	30,987.9
Debt (FY20) (₹ Crore)	49.0
Cash & Inv (FY20) (₹ Crore)	157.0
EV (₹ Crore)	30,879.9
52 week H/L	679 / 296
Equity capital (₹ Crore)	53.9
Face value (₹)	1.0

Price chart



Key risk to our call

- Delay in volume offtake of industrial paint segment in coming quarter would restrict our topline growth (we estimate revenue CAGR of 13% in FY20-23E)
- Delay in passing of higher raw material prices may drag EBITDA margin gain

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Revenue	1,473.4	1,400.5	1,248.2	18.0	1,288.1	14.4	Strong growth in both decorative and industrial paint demand help drive topline during Q3FY21
Other Income	14.1	12.5	12.4	13.2	4.3	224.0	
Raw Material Exp	907.1	875.0	780.1	16.3	782.5	15.9	Gross margin increased 90 bps YoY led by benign input prices
Employee Exp	64.2	65.5	67.6	-4.9	64.0	0.4	
Manuf & Other exp	212.2	208.7	208.6	1.7	182.2	16.5	Various cost optimisation measures helped in saving in other expenses
Total Expenses	1,183.6	1,149.2	1,056.3	12.1	1,028.7	15.1	
EBITDA	289.8	251.3	192.0	51.0	259.4	11.7	
EBITDA Margin (%)	19.7	17.9	15.4	429 bps	20.1	-47 bps	Saving in other cost and gross margin expansion help drive EBITDA margin up 429 bps YoY
Depreciation	33.6	33.7	31.4	7.1	33.0	1.8	
Interest	1.0	1.3	1.2	0.0	1.1	0.0	
PBT	269.2	228.8	171.7	56.7	218.8	23.1	
Total Tax	67.3	57.2	49.0	37.3	60.2	11.7	
Adj PAT	201.9	171.6	122.7	64.5	158.6	27.4	Mainly tracking strong revenue growth and EBITDA margin expansion
Key Metrics							
Volume Growth (%)	20.0	15.0	-7.2		7.0		Strong volume growth on a lower base amid festive demand and revival in the automotive sales during Q3FY21. The decorative paint volume was higher at 22% YoY while industrial paint volume growth was higher by 19% YoY
Realisation Growth (%)	-1.6	-2.4	-0.5		-3.2		Lower realisation attributable to change in product mix

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	6,181.7	6239.2	0.9	7092.9	7072.8	(0.3)	We marginally tweak our FY22E-23E estimates factoring in the current quarter performance
EBITDA	952.0	1019.4	7.1	1091.5	1188.2	8.9	
EBITDA Margin %	15.4	16.3	94bps	15.4	16.8	140bps	We believe EBITDA margin would normalise with reversal of some operating costs (including advertisement expenditure) along with stabilisation in raw material prices, going forward
PAT	649.0	685.2	5.6	754.5	806.2	6.8	
EPS (₹)	12.1	12.7	5.5	14.0	15.0	6.8	

Source: Company, ICICI Direct Research

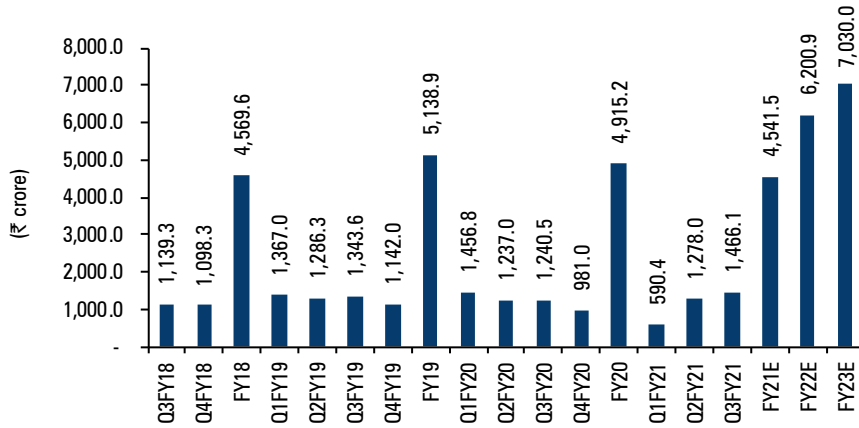
Exhibit 3: Assumption

	Current		Earlier		Comments		
	FY20E	FY21E	FY22E	FY23E			
Volume Growth (%)	-4.4	-6.4	32.9	12.1	31.9	13.4	We believe decorative paint demand will continue in the coming period supported by housing construction and repainting demand in tier I and tier II cities. In addition to this, revival in industrial paints demand led by automotive industry would help drive overall volume CAGR of 11% for FY20-23E
Realisation Growth (%)	0.1	-1.3	2.7	1.1	2.4	1.1	

Source: Company, ICICI Direct Research

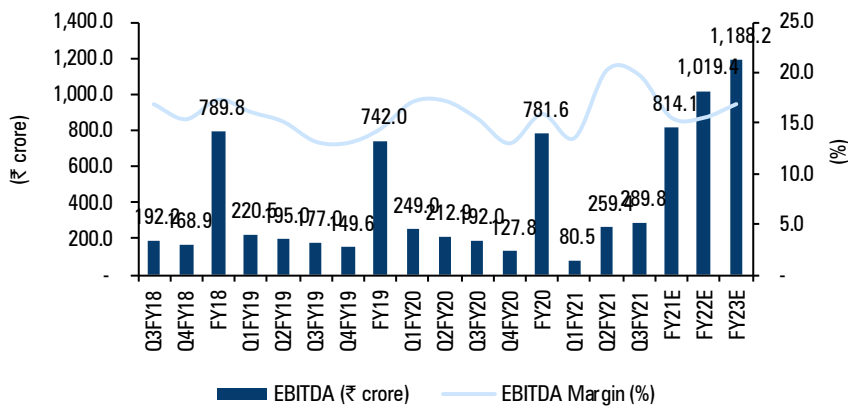
Financial story in charts

Exhibit 4: Expect strong recovery from FY22E onwards



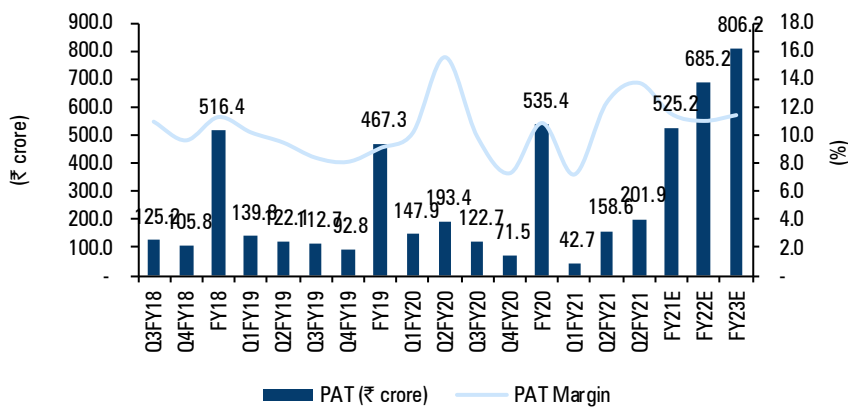
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: PAT movement



Source: Company, ICICI Direct Research

Conference call key takeaways

- Strong festive demand, opening up of metro and continued demand from tier II and tier III cities helped drive strong volume growth for the company
- North and eastern regions are key growth drivers for the company
- Launched three new products in the decorative paint segment during Q3FY21
- Focus on increasing business from construction chemical business. Continuous dealer addition to increase penetration of the product. The construction chemical industry is ~10% of the size of total paint industry
- Strong recovery in the automotive industry (strong growth in passenger vehicle segment by 17%) helped drive volume growth of industrial paint demand. The company has gained market share in the automotive coatings and powder coating business
- Strong recovery in the domestic and overseas subsidiary business. All businesses recorded strong double digit growth during Q3FY21
- Given the strong push by government on infrastructure projects, the demand outlook is likely to be robust in the coming period
- Global supply issues amid pandemic resulted in higher input prices
- Inflationary pressure in decorative paints would be easily pass on while in the industrial paint segment it would be passed on with some lag
- The company will continue its cost optimisation measures, going ahead
- Total paint capacity was at 5.5 lakh tonnes
- FY21 capex was at ₹ 600 crore of which ~₹ 60 crore was for maintenance capex

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total operating Income	4,943.2	4,575.7	6,239.2	7,072.8	
Growth (%)		-7.4	36.4	13.4	
Raw Material Expenses	3,057.6	2,809.7	3,905.7	4,399.6	
Employee Expenses	269.4	260.2	299.0	316.7	
Other expenses	834.6	691.6	1,015.1	1,168.4	
Total Operating Expenditure	4,161.6	3,761.6	5,219.8	5,884.6	
EBITDA	781.6	814.1	1,019.4	1,188.2	
Growth (%)		4.2	25.2	16.6	
Depreciation	119.9	131.7	155.0	168.7	
Interest	5.0	4.8	4.9	5.0	
Other Income	26.9	40.9	55.8	63.3	
Exceptional Income	0.0	10.8	0.0	0.0	
PBT	683.6	707.7	915.3	1,077.8	
Total Tax	148.2	182.5	230.1	271.6	
PAT	535.4	525.2	685.2	806.2	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit before Tax	535.4	525.2	685.2	806.2	
Add: Depreciation	119.9	131.7	155.0	168.7	
(Inc)/dec in Current Assets	-18.1	-34.6	-497.3	-328.0	
Inc/(dec) in CL and Provisions	-112.4	-10.2	202.9	114.1	
Others	5.0	4.8	4.9	5.0	
CF from operating activities	529.8	616.9	550.8	765.9	
(Inc)/dec in Investments	-41.0	0.0	-50.0	-50.0	
(Inc)/dec in Fixed Assets	-358.0	-200.0	-300.0	-300.0	
Others	41.0	0.0	50.0	50.0	
CF from investing activities	-369.3	-659.0	-319.3	-200.0	
Inc/(dec) in loan funds	45.6	10.0	-5.0	12.0	
Dividend paid & dividend tax	-205.3	-208.5	-260.7	-260.7	
Others	27.3	-217.1	-4.9	-5.0	
CF from financing activities	-132.4	-415.6	-270.5	-253.6	
Net Cash flow	78.1	1.3	-69.8	162.3	
Opening Cash	78.9	157.0	158.3	88.6	
Closing Cash	157.0	158.3	88.6	250.8	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	53.9	53.9	53.9	53.9	
Reserve and Surplus	3,733.0	3,837.4	4,262.0	4,807.5	
Total Shareholders funds	3,786.9	3,891.3	4,315.8	4,861.4	
Total Debt	49.0	59.0	54.0	66.0	
Deferred Tax Liability	85.0	85.0	85.0	85.0	
Total Liabilities	3,920.9	4,035.3	4,454.9	5,012.4	
Assets					
Gross Block	2,617.6	2,882.0	3,182.0	3,482.0	
Less: Acc Depreciation	913.3	1,045.0	1,200.0	1,368.8	
Net Block	1,704.3	1,837.0	1,982.0	2,113.3	
Capital WIP	164.4	100.0	100.0	100.0	
Total Fixed Assets	1,868.7	1,937.0	2,082.0	2,213.3	
Non-Current Investments	149.9	149.9	199.9	249.9	
Inventory	930.1	933.2	1,189.2	1,348.2	
Debtors	674.5	771.4	934.4	1,059.3	
Loans and Advances	19.2	17.7	24.2	27.4	
Investments & Other CA	472.8	411.6	450.8	446.9	
Cash	157.0	158.3	88.6	250.8	
Total Current Assets	2,271.7	2,307.6	2,735.1	3,225.4	
Creditors	519.5	522.6	679.6	770.4	
Provisions & other CL	141.1	127.8	173.7	197.0	
Total Current Liabilities	660.6	650.4	853.3	967.4	
Net Current Assets	1,611.1	1,657.2	1,881.8	2,258.0	
Others Non-Current Assets	291.2	291.2	291.2	291.2	
Application of Funds	3,920.9	4,035.3	4,454.9	5,012.4	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	9.9	9.7	12.7	15.0	
Cash EPS	12.2	12.2	15.6	18.1	
BV	70.3	72.2	80.1	90.2	
DPS	3.8	3.9	4.8	4.8	
Cash Per Share	16.9	19.4	22.3	25.4	
Operating Ratios (%)					
EBITDA Margin	15.9	17.9	16.4	16.9	
EBIT Margin	13.5	15.0	13.9	14.5	
PAT Margin	10.9	11.7	11.1	11.5	
Inventory days	69	75	70	70	
Debtor days	50	62	55	55	
Creditor days	39	42	40	40	
Return Ratios (%)					
RoE	14.1	13.7	15.9	16.6	
RoCE	17.6	17.9	20.7	21.6	
RoIC	22.1	21.1	23.3	24.9	
Valuation Ratios (x)					
P/E	57.9	59.0	45.2	38.4	
EV / EBITDA	39.5	37.9	30.4	25.9	
EV / Net Sales	6.3	6.8	5.0	4.4	
Market Cap / Sales	6.3	6.8	5.0	4.4	
Price to Book Value	8.2	8.0	7.2	6.4	
Solvency Ratios					
Debt/EBITDA	0.1	0.1	0.1	0.1	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.7	2.9	2.8	2.8	
Quick Ratio	1.3	1.5	1.4	1.4	

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,453	3,010	Hold	2,35,243	32.8	39.9	46.3	74.7	61.4	53.0	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,944	1,260	Hold	29,289	20.7	25.5	27.8	93.8	76.2	70.0	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6
Amber Enterprises (AMBEN)	2,745	3,015	Buy	8,632	29.8	68.2	97.6	92.0	40.3	28.1	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	736	585	Buy	8,368	11.8	17.1	23.0	NM	43.1	31.9	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	729	675	Hold	70,800	7.8	9.7	11.7	93.7	75.5	62.1	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	411	480	Buy	25,770	7.9	9.5	12.0	51.7	43.2	34.1	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	226	250	Hold	7,130	7.8	8.9	10.8	28.8	25.4	21.0	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,115	1,255	Hold	69,565	16.1	17.8	22.9	69.3	62.6	48.6	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	575	675	Buy	30,988	9.7	12.7	15.0	59.0	45.2	38.4	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6
Pidilite Industries (PIDIND)	1,739	1,920	Buy	88,306	22.1	28.2	32.9	78.5	61.7	52.9	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,296	1,385	Buy	19,295	57.9	67.2	79.7	22.4	19.3	16.3	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,915	2,010	Buy	24,326	62.2	50.0	58.0	30.8	38.3	33.0	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,017	1,090	Hold	7,115	13.1	29.8	40.0	77.4	34.1	25.4	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	53	43	Hold	1,199	7.5	4.0	9.1	7.1	13.3	5.8	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	241	210	Buy	10,322	3.7	5.3	6.2	65.4	45.3	38.8	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	1,004	845	Hold	33,206	12.3	22.6	29.8	81.6	44.4	33.7	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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