

February 3, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		UNDER REVIEW	
Target Price	653		-	
Sales (Rs. m)	55,897	65,286	52,192	60,627
% Chng.	7.1	7.7		
EBITDA (Rs. m)	10,483	12,406	9,659	11,712
% Chng.	8.5	5.9		
EPS (Rs.)	13.0	15.6	11.8	14.5
% Chng.	10.4	7.2		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	49,432	45,991	55,897	65,286
EBITDA (Rs. m)	7,816	8,552	10,483	12,406
Margin (%)	15.8	18.6	18.8	19.0
PAT (Rs. m)	5,354	5,633	7,003	8,382
EPS (Rs.)	9.9	10.5	13.0	15.6
Gr. (%)	14.6	5.2	24.3	19.7
DPS (Rs.)	2.6	4.4	4.0	5.0
Yield (%)	0.4	0.8	0.7	0.9
RoE (%)	14.8	14.3	16.1	17.2
RoCE (%)	18.3	18.3	20.8	22.3
EV/Sales (x)	6.2	6.6	5.4	4.5
EV/EBITDA (x)	39.3	35.5	28.7	23.8
PE (x)	58.3	55.4	44.6	37.2
P/BV (x)	8.2	7.6	6.8	6.0

Key Data

KANEBO | KNPL IN

52-W High / Low	Rs.680 / Rs.294
Sensex / Nifty	50,256 / 14,790
Market Cap	Rs.312bn / \$ 4,278m
Shares Outstanding	539m
3M Av g. Daily Value	Rs.461.54m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	4.17
Domestic Institution	12.33
Public & Others	8.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.7)	30.8	13.9
Relative	(13.0)	(3.9)	(9.6)

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Charmi Mehta

charmimehta@plindia.com | 91-22-66322256

Heet Vora

heetvora@plindia.com | 91-22-66322381

Gains from Cyclical recovery, BUY

Quick Pointers:

- Decorative/Industrial paint volume growth estimated at 24%/17%.
- EBITDA margins expanded 430bps on back of better product mix and judicious cost control; to remain under pressure going forward.

We increase FY21/22/23 EPS estimates by 7.8%/ 10.4% / 7.2% due to high double digit growth in decorative segment on the back of strong demand post un-lock and strong pickup in Automotive, other Industrial coatings, waterproofing and Adhesive segments. KNPL registered strong volume growth led by recovery in metro and tier 1 cities along with sustained growth in tier 2,3,4 cities and rural towns. KNPL gained due to higher gross margins, better product mix and judicious cost control, however we expect margins to soften due to firm RM prices despite planned price increase across segments.

We remain positive in the long term story for KNPL led by decorative paints demand (shift towards organized sector, housing push in Tier2/3 cities and shorter painting cycle) and gradual recovery in auto paints (rising demand for personal mobility) and emerging segments like powder coatings (appliances), infra coatings, transport/metros, rebar and Industrial applications. KNPL trades at 37.1x FY23 EPS which is at 30% discount to FY23 PE of APNT (53.5x) v/s historical average of 15%. Assign Buy with a target price of Rs653 (42x FY23 EPS).

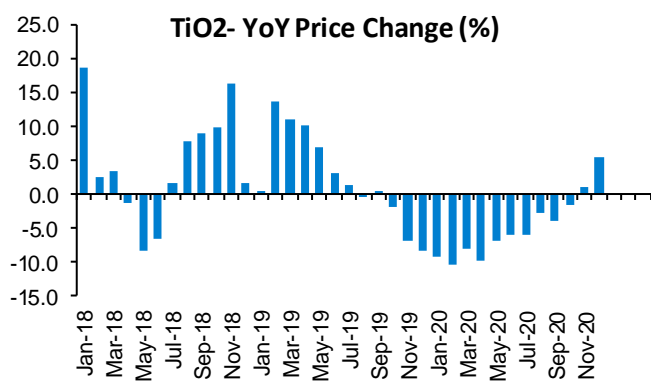
Double digit volume growth, margins up 430bps: Net Sales increased 18% YoY to Rs 14.7bn (est. Rs 13.8bn) due to strong bounce back in festival demand. Both Decorative and Industrial witnessed high double-digit volume growth in the quarter with demand recovery across all customer segments. Gross margins were up 90bps YoY to 38.4% (est 39.5%). EBITDA increased 51% YoY to Rs 2.89bn (est Rs 2.59bn) with margins expanding 430bps to 19.7% (est 18.8%) due to continued aggressive cost control along with judicious management of overheads. (employee and other exp down 110bps and 230bps). Adj. PAT increased 64.6% YoY to Rs 2.02bn (est. Rs 1.73bn).

Concall Highlights: 1) Decorative volume growth estimated at 24% while industrial volumes at 17% on back of recovery in auto segment. 2) Decorative recorded good growth on the back of festival season and continued strong growths in smaller towns. Metros and Tier 1 towns also witnessed an upswing in demand. 3) Strong hold in North and East India and tier 3 and 4 cities. 4) Emulsion did well resulting in better product mix. With situation normalizing, expect product mix to improve. 5) Gained market share in industrial coating using areas of strength like technological advancement and proximity of plants to customers. 6) Launched three new products during Q3 in the Interior and Exterior Range. 7) Expanded product offerings of construction chemicals and now has full basic range of products. 8) Capacity utilisation at 68%. 9) Inflationary RM prices, will take price increase across SKUs. 10) Bangladesh, Nepal and Sri Lanka all recorded high double digit growth.

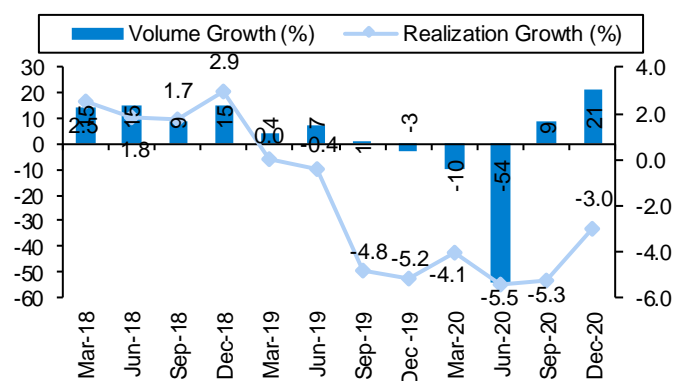
Exhibit 1: Sales grew 18%, Margins expand 430bps, adj PAT up 64.6%

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY21	YoY gr. (%)
Total Revenue	14,734	12,481	18.0	12,881	33,595	39,551	(15.1)
Gross Profit	5,663	4,681	21.0	5,056	13,209	15,053	(12.2)
<i>% of NS</i>	<i>38.4</i>	<i>37.5</i>	<i>0.9</i>	<i>39.2</i>	<i>39.3</i>	<i>38.1</i>	<i>1.3</i>
Other Expenses	2,765	2,762	0.1	2,462	6,912	8,515	(18.8)
<i>% of NS</i>	<i>18.8</i>	<i>22.1</i>	<i>(3.4)</i>	<i>19.1</i>	<i>20.6</i>	<i>21.5</i>	<i>(1.0)</i>
EBITDA	2,898	1,919	51.0	2,594	6,297	6,538	(3.7)
<i>Margins %</i>	<i>19.7</i>	<i>15.4</i>	<i>4.3</i>	<i>20.1</i>	<i>18.7</i>	<i>16.5</i>	<i>2.2</i>
Depreciation	336	314	7.1	330	985	878	12.1
Interest	10	12		11	35	37	
PBT from operations	2,552	1,593	60.2	2,252	5,277	5,623	(6.1)
Other Income	141	124	13.2	43	263	229	15.1
PBT	2,692	1,717	56.8	2,296	5,541	5,852	(5.3)
Tax	673	490	37.3	602	1,401	1,212	15.6
<i>Tax rate %</i>	<i>25.0</i>	<i>28.6</i>	<i>(3.6)</i>	<i>26.2</i>	<i>25.3</i>	<i>20.7</i>	<i>4.6</i>
Adjusted PAT	2,019	1,227	64.6	1,694	4,140	4,639	(10.8)

Source: Company, PL

Exhibit 2: TiO2 is up 1.9% YoY, 3.1% QoQ


Source: Company, PL

Exhibit 3: Volume Growth estimated at 21%


Source: Company, PL

Exhibit 4: Launched 3 new products in interior and exterior range


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	49,432	45,991	55,897	65,286
YoY gr. (%)	(4.5)	(7.0)	21.5	16.8
Cost of Goods Sold	30,576	28,126	33,843	39,366
Gross Profit	18,856	17,865	22,054	25,920
Margin (%)	38.1	38.8	39.5	39.7
Employee Cost	2,694	2,576	2,963	3,330
Other Expenses	8,346	3,863	4,751	5,615
EBITDA	7,816	8,552	10,483	12,406
YoY gr. (%)	5.3	9.4	22.6	18.3
Margin (%)	15.8	18.6	18.8	19.0
Depreciation and Amortization	1,199	1,318	1,394	1,511
EBIT	6,617	7,234	9,090	10,895
Margin (%)	13.4	15.7	16.3	16.7
Net Interest	50	54	56	59
Other Income	269	348	325	365
Profit Before Tax	6,836	7,528	9,358	11,201
Margin (%)	13.8	16.4	16.7	17.2
Total Tax	1,482	1,895	2,355	2,819
Effective tax rate (%)	21.7	25.2	25.2	25.2
Profit after tax	5,354	5,633	7,003	8,382
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,354	5,633	7,003	8,382
YoY gr. (%)	14.6	5.2	24.3	19.7
Margin (%)	10.8	12.2	12.5	12.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,354	5,633	7,003	8,382
YoY gr. (%)	14.6	5.2	24.3	19.7
Margin (%)	10.8	12.2	12.5	12.8
Other Comprehensive Income	(10)	-	-	-
Total Comprehensive Income	5,344	5,633	7,003	8,382
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	9.9	10.5	13.0	15.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	24,896	27,050	29,560	32,070
Tangibles	24,707	26,851	29,351	31,851
Intangibles	188	198	208	218
Acc: Dep / Amortization	8,920	10,060	11,275	12,598
Tangibles	8,759	9,892	11,099	12,413
Intangibles	161	168	176	185
Net fixed assets	15,976	16,990	18,285	19,472
Tangibles	15,948	16,959	18,253	19,438
Intangibles	28	30	32	33
Capital Work In Progress	1,644	2,000	2,000	2,000
Goodwill	-	-	-	-
Non-Current Investments	1,648	1,660	1,673	1,687
Net Deferred tax assets	(850)	(892)	(937)	(984)
Other Non-Current Assets	4,023	2,383	2,534	2,688
Current Assets				
Investments	3,051	3,109	3,168	3,228
Inventories	9,301	11,246	11,246	11,246
Trade receivables	6,745	6,268	7,621	8,904
Cash & Bank Balance	1,663	5,059	8,587	13,210
Other Current Assets	1,831	1,380	1,677	1,959
Total Assets	45,924	50,140	56,847	64,457
Equity				
Equity Share Capital	539	539	539	539
Other Equity	37,330	40,592	45,439	51,127
Total Networkth	37,869	41,131	45,978	51,666
Non-Current Liabilities				
Long Term borrowings	-	50	50	50
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,195	6,188	7,784	9,448
Other current liabilities	1,521	1,388	1,608	1,820
Total Equity & Liabilities	45,925	50,140	56,847	64,458

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,836	7,528	9,358	11,201
Add. Depreciation	1,199	1,318	1,394	1,511
Add. Interest	50	54	56	59
Less Financial Other Income	269	348	325	365
Add. Other	150	1,670	(120)	(120)
Op. profit before WC changes	8,235	10,570	10,688	12,650
Net Changes-WC	(1,177)	(217)	96	243
Direct tax	(1,482)	(1,895)	(2,355)	(2,819)
Net cash from Op. activities	5,576	8,458	8,429	10,074
Capital expenditures	(2,513)	(2,688)	(2,689)	(2,698)
Interest / Dividend Income	-	-	-	-
Others	(441)	-	-	-
Net Cash from Inv. activities	(2,954)	(2,688)	(2,689)	(2,698)
Issue of share cap. / premium	0	-	-	-
Debt changes	(34)	50	-	-
Dividend paid	(1,689)	(2,371)	(2,156)	(2,695)
Interest paid	(50)	(54)	(56)	(59)
Others	-	-	-	-
Net cash from Fin. activities	(1,773)	(2,375)	(2,212)	(2,754)
Net change in cash	849	3,396	3,528	4,623
Free Cash Flow	3,063	5,771	5,740	7,376

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	9,880	5,981	12,881	14,734
YoY gr. (%)	(14.3)	(59.1)	3.6	18.0
Raw Material Expenses	6,078	3,490	7,825	9,071
Gross Profit	3,802	2,491	5,056	5,663
Margin (%)	38.5	41.6	39.2	38.4
EBITDA	1,278	805	2,594	2,898
YoY gr. (%)	(14.6)	(67.7)	21.8	51.0
Margin (%)	12.9	13.5	20.1	19.7
Depreciation / Depletion	320	318	330	336
EBIT	958	487	2,264	2,562
Margin (%)	9.7	8.1	17.6	17.4
Net Interest	13	13	11	10
Other Income	40	79	43	141
Profit before Tax	985	553	2,296	2,692
Margin (%)	10.0	9.2	17.8	18.3
Total Tax	270	126	602	673
Effective tax rate (%)	27.4	22.8	26.2	25.0
Profit after Tax	715	427	1,694	2,019
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	715	427	1,694	2,019
YoY gr. (%)	(23.0)	(71.1)	(12.4)	64.6
Margin (%)	7.2	7.1	13.1	13.7
Extra Ord. Income / (Exp)	-	-	(108)	-
Reported PAT	715	427	1,586	2,019
YoY gr. (%)	(23.0)	(71.1)	(18.0)	64.6
Margin (%)	7.2	7.1	12.3	13.7
Other Comprehensive Income	3	(5)	(5)	(5)
Total Comprehensive Income	717	423	1,581	2,015
Av g. Shares O/s (m)	539	539	539	539
EPS (Rs)	1.3	0.8	3.1	3.7

Source: Company Data, PL Research

Key Financial Metrics

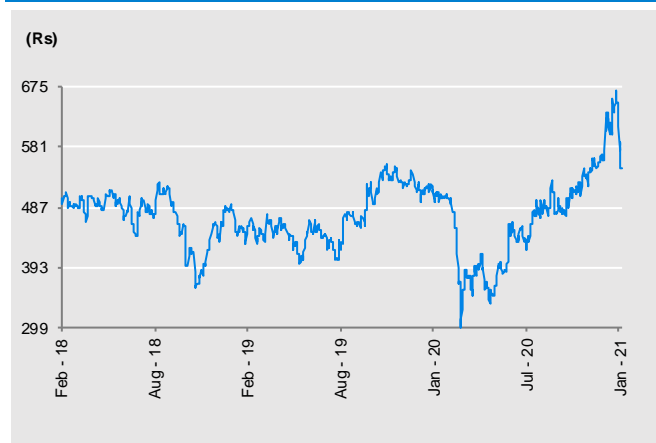
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	9.9	10.5	13.0	15.6
CEPS	12.2	12.9	15.6	18.4
BVPS	70.3	76.3	85.3	95.9
FCF	5.7	10.7	10.7	13.7
DPS	2.6	4.4	4.0	5.0
Return Ratio(%)				
RoCE	18.3	18.3	20.8	22.3
ROIC	16.5	17.3	21.4	25.1
RoE	14.8	14.3	16.1	17.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	80	90	72	60
Valuation(x)				
PER	58.3	55.4	44.6	37.2
P/B	8.2	7.6	6.8	6.0
P/CEPS	12.2	12.9	15.6	18.4
EV/EBITDA	39.3	35.5	28.7	23.8
EV/Sales	6.2	6.6	5.4	4.5
Dividend Yield (%)	0.4	0.8	0.7	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume Gr %	(1.5)	(9.5)	18.0	15.0
Gross Margins %	38.1	38.8	39.5	39.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jan-21	UR	-	613
2	03-Nov-20	BUY	551	513
3	08-Oct-20	BUY	550	477
4	06-Oct-20	BUY	550	481
5	05-Aug-20	BUY	501	443
6	08-Jul-20	BUY	529	444
7	18-Jun-20	BUY	487	389
8	08-May-20	BUY	486	360
9	13-Apr-20	BUY	486	379

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	647	637
4	Britannia Industries	BUY	4,301	3,540
5	Colgate Palmolive	Hold	1,651	1,564
6	Crompton Greaves Consumer Electricals	BUY	447	412
7	Dabur India	Accumulate	550	515
8	Emami	BUY	568	483
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	1,126	1,131
11	Hindustan Unilever	BUY	2,502	2,391
12	ITC	BUY	254	205
13	Jubilant FoodWorks	UR	-	2,789
14	Kansai Nerolac Paints	UR	-	613
15	Marico	Accumulate	440	411
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	Hold	1,739	1,670
18	Polycab India	BUY	1,247	1,278
19	Titan Company	UR	-	1,573
20	Voltas	UR	-	882

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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