

October 27, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	651		661	
Sales (Rs. m)	70,799	80,490	65,901	74,897
% Chng.	7.4	7.5		
EBITDA (Rs. m)	11,426	13,490	11,894	14,078
% Chng.	(3.9)	(4.2)		
EPS (Rs.)	14.1	16.8	14.9	17.8
% Chng.	(5.7)	(5.7)		

Key Financials - Standalone

Ye Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	46,900	60,617	70,799	80,490
EBITDA (Rs. m)	8,479	7,995	11,426	13,490
Margin (%)	18.1	13.2	16.1	16.8
PAT (Rs. m)	5,566	5,072	7,574	9,067
EPS (Rs.)	10.3	9.4	14.1	16.8
Gr. (%)	4.0	(8.9)	49.3	19.7
DPS (Rs.)	4.4	4.5	5.0	6.0
Yield (%)	0.8	0.8	0.9	1.1
RoE (%)	14.1	12.0	16.5	17.7
RoCE (%)	18.0	15.3	21.2	22.7
EV/Sales (x)	6.3	4.8	4.1	3.6
EV/EBITDA (x)	34.7	36.6	25.4	21.3
PE (x)	54.2	59.5	39.8	33.3
P/BV (x)	7.4	6.9	6.2	5.6

Key Data

KANEBO | KNPL IN

52-W High / Low	Rs.678 / Rs.491
Sensex / Nifty	61,143 / 18,211
Market Cap	Rs.302bn/ \$ 4,023m
Shares Outstanding	539m
3M Av g. Daily Value	Rs.463.07m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	3.40
Domestic Institution	13.34
Public & Others	8.27
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.6)	1.2	8.6
Relative	(13.1)	(19.0)	(28.0)

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Margins play spoil sport

Quick Pointers:

- Volume growth in line with value growth, both decorative and industrial paints grow in tandem.
- Auto paint sales impacted by chip shortages, recovery may take upto 1 year
- On-track to expand distribution by 5-10% per annum

We are cutting our FY22/23/24 EPS estimates by 8.4%/5.7%/5.7% mainly due to 1) Increased pressure on GRM's due to significant input cost inflation and 2) semiconductor shortage led impact on auto sales may last upto 1 year. We are reducing our Gross margin estimate by 260bps in FY22 with gradual restoration in FY23/24. We expect higher price increases in 3QFY22 and gradual recovery in margins from 4QFY22, although it may take a couple of quarters for margins to come to normal range of 15-17%.

We continue to remain positive on the long term story led by 1) steady growth in Decorative paints demand on account of shift towards organized sector, housing push in Tier2/3 cities and shorter painting cycle, 2) Distribution expansion of 5-10% expected every year 3) Increased contribution from newly launched differentiated products 4) Gradual recovery in auto paints and 5) emerging segments like powder coatings (appliances), infra coatings, transport/metros, rebar and Industrial applications. We estimate PAT CAGR of 20.9% over FY21-24 and value the stock at 42xsept23 EPS assigning a TP of Rs651 (Rs661 earlier). Recovery in margins and Auto sales can re-rate the stock from current levels of 36.7xSept23 EPS. However, Kansai needs higher volume growth in decorative paints to bridge the valuation gap (45% discount APNT on FY24 EPS) with APNT. Accumulate

Gross margins down 1040bps on the back of severe inflation: Net Sales stood at Rs 15.20bn reported 16.2% YoY growth (Est Rs 14.68bn). Gross margins contracted 1040bps YoY to 28.9% (est 34.5%) due to Inflationary trend in RM prices, supply chain issues. Volatile forex market. EBITDA came below our estimates to Rs 1.65bn down 37.3% YoY (est Rs 2.20bn). EBITDA margins almost halved YoY from 20.1% in 2Q21 to 10.8% in 2Q22. (est 15%). Adj. PAT decreased by 42.1% at Rs 985mn in 2Q22 (est. Rs 1.45bn).

Concall Highlights: 1) Decorative/ Industrial segment exhibited similar growth in 2Q. Decorative growth led by urban demand. 2) In H1FY22, Kansai has taken price hikes to the tune of 6-7% in line with industry. 3) Demand environment remains strong across segments; managing supply chain challenges in form of increased lead times due to port congestion and RM inflation remains key 4) Within decorative, Kansai to focus on emulsions, distribution expansion and new product introductions 5) Within industrials, auto demand remain subdued due to chip shortages, non-auto back to normalized levels 6) Decorative segment contributes 55% of revenues 7) Industry has been offering higher discounts on the lower end products, but not too much on higher end products

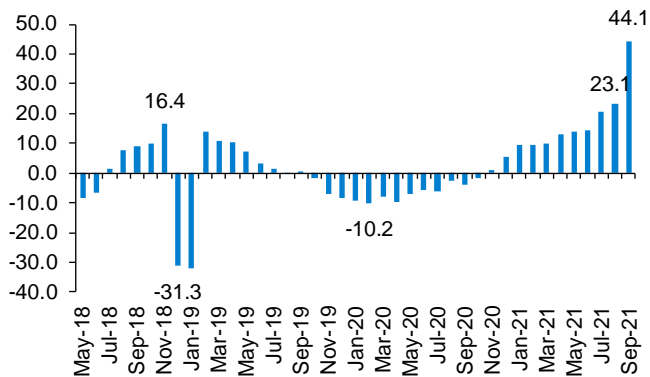


Exhibit 1 : Sales grew 16.2% YoY, EBITDA Margins halved to 10.8%

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	1HFY22	1HFY21	YoY gr. (%)
Total Revenue	15,207	13,089	16.2	13,216	28,424	19,070	49.1
Gross Profit	4,397	5,150	(14.6)	4,537	8,934	7,641	16.9
% of NS	28.9	39.3		34.3	31.4	40.1	
Other Expenses	2,751	2,522	9.1	2,640	5,391	4,207	28.1
% of NS	18.1	19.3		20.0	19.0	22.1	
EBITDA	1,647	2,628	(37.3)	1,897	3,544	3,433	3.2
Margins %	10.8	20.1		14.4	12.5	18.0	
Depreciation	380	356	6.8	377	758	674	12.4
Interest	23	14		27	50	27	
PBT from operations	1,244	2,259	(44.9)	1,493	2,737	2,732	0.2
Other Income	62	44	42.6	97	159	123	29.6
PBT	1,306	2,302	(43.3)	1,590	2,896	2,855	1.4
Tax	321	601	(46.7)	401	722	727	(0.7)
Tax rate %	24.5	26.1		25.2	24.9	25.5	
Adjusted PAT	985	1,701	(42.1)	1,189	2,174	2,128	2.2

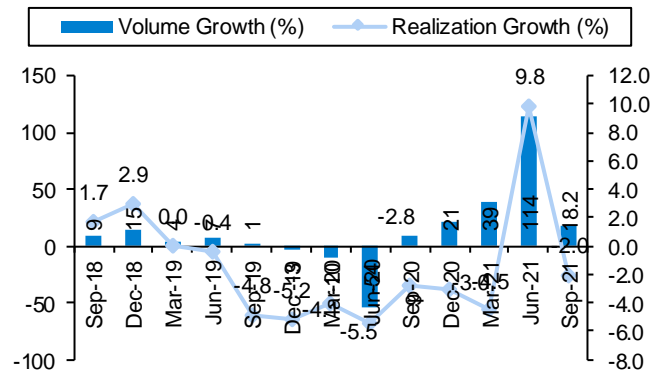
Source: Company, PL

Exhibit 2 : 2Q22 TiO2 prices up 29.5% YoY, 14.2% QoQ



Source: Company, PL

Exhibit 3 : Volume Growth estimated at 18.2%



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	46,900	60,617	70,799	80,490
YoY gr. (%)	(5.1)	29.2	16.8	13.7
Cost of Goods Sold	29,116	40,741	44,859	50,661
Gross Profit	17,784	19,875	25,940	29,829
Margin (%)	37.9	32.6	36.6	37.1
Employee Cost	2,586	3,122	3,646	4,185
Other Expenses	4,308	5,122	6,159	6,922
EBITDA	8,479	7,995	11,426	13,490
YoY gr. (%)	8.5	(5.7)	42.9	18.1
Margin (%)	18.1	13.2	16.1	16.6
Depreciation and Amortization	1,390	1,533	1,667	1,827
EBIT	7,089	6,461	9,759	11,662
Margin (%)	15.1	10.7	13.8	14.5
Net Interest	75	94	130	161
Other Income	387	411	492	615
Profit Before Tax	7,401	6,778	10,121	12,116
Margin (%)	15.8	11.2	14.3	15.1
Total Tax	1,835	1,706	2,547	3,050
Effective tax rate (%)	24.8	25.2	25.2	25.2
Profit after tax	5,566	5,072	7,574	9,067
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,566	5,072	7,574	9,067
YoY gr. (%)	4.0	(8.9)	49.3	19.7
Margin (%)	11.9	8.4	10.7	11.3
Extra Ord. Income / (Exp)	(108)	-	-	-
Reported PAT	5,458	5,072	7,574	9,067
YoY gr. (%)	1.9	(7.1)	49.3	19.7
Margin (%)	11.6	8.4	10.7	11.3
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	5,460	5,072	7,574	9,067
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	10.3	9.4	14.1	16.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	25,781	28,349	30,859	33,369
Tangibles	25,593	28,151	30,651	33,151
Intangibles	188	198	208	218
Acc: Dep / Amortization	9,896	11,132	12,458	13,897
Tangibles	9,719	10,953	12,275	13,709
Intangibles	177	179	183	188
Net fixed assets	15,885	17,217	18,401	19,472
Tangibles	15,874	17,197	18,376	19,442
Intangibles	12	19	26	30
Capital Work In Progress	2,058	2,000	2,000	2,000
Goodwill	-	-	-	-
Non-Current Investments	1,801	1,813	1,826	1,839
Net Deferred tax assets	(884)	(928)	(974)	(1,023)
Other Non-Current Assets	3,408	2,797	3,320	3,758
Current Assets				
Investments	6,681	8,395	10,643	13,409
Inventories	10,902	12,048	12,669	14,406
Trade receivables	8,362	9,077	10,606	11,621
Cash & Bank Balance	753	879	1,009	1,173
Other Current Assets	2,179	1,818	2,124	2,415
Total Assets	52,091	56,104	62,669	70,174
Equity				
Equity Share Capital	539	539	539	539
Other Equity	40,270	42,917	47,796	53,629
Total Networkth	40,809	43,456	48,335	54,168
Non-Current Liabilities				
Long Term borrowings	-	50	50	50
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,090	9,370	10,766	12,159
Other current liabilities	1,581	1,809	2,053	2,284
Total Equity & Liabilities	52,091	56,104	62,669	70,174

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	7,251	6,778	10,121	12,116
Add. Depreciation	1,390	1,533	1,667	1,827
Add. Interest	75	94	130	161
Less Financial Other Income	387	411	492	615
Add. Other	781	408	(490)	(403)
Op. profit before WC changes	9,497	8,813	11,428	13,702
Net Changes-WC	(4,259)	(1,706)	(3,073)	(4,195)
Direct tax	(1,835)	(1,706)	(2,547)	(3,050)
Net cash from Op. activities	3,403	5,401	5,807	6,457
Capital expenditures	(1,713)	(2,806)	(2,851)	(2,898)
Interest / Dividend Income	-	-	-	-
Others	(156)	-	-	-
Net Cash from Invt. activities	(1,869)	(2,806)	(2,851)	(2,898)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	50	-	-
Dividend paid	(2,371)	(2,425)	(2,695)	(3,234)
Interest paid	(75)	(94)	(130)	(161)
Others	3	-	(1)	-
Net cash from Fin. activities	(2,443)	(2,469)	(2,825)	(3,395)
Net change in cash	(910)	126	130	164
Free Cash Flow	1,690	2,595	2,955	3,559

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	14,734	13,305	13,216	15,207
YoY gr. (%)	18.0	34.7	121.0	18.1
Raw Material Expenses	9,071	8,729	8,679	10,810
Gross Profit	5,663	4,576	4,537	4,397
Margin (%)	38.4	34.4	34.3	28.9
EBITDA	2,898	2,034	1,897	1,647
YoY gr. (%)	51.0	59.1	135.7	(36.5)
Margin (%)	19.7	15.3	14.4	10.8
Depreciation / Depletion	336	405	377	380
EBIT	2,562	1,629	1,520	1,267
Margin (%)	17.4	12.2	11.5	8.3
Net Interest	10	40	27	23
Other Income	141	124	97	62
Profit before Tax	2,692	1,713	1,590	1,306
Margin (%)	18.3	12.9	12.0	8.6
Total Tax	673	435	401	321
Effective tax rate (%)	25.0	25.4	25.2	24.5
Profit after Tax	2,019	1,278	1,189	985
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,019	1,278	1,189	985
YoY gr. (%)	64.6	78.8	178.3	(41.8)
Margin (%)	13.7	9.6	9.0	6.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,019	1,278	1,189	985
YoY gr. (%)	64.6	78.8	178.3	(37.8)
Margin (%)	13.7	9.6	9.0	6.5
Other Comprehensive Income	(5)	15	(2)	(2)
Total Comprehensive Income	2,015	1,293	1,187	984
Av g. Shares O/s (m)	539	539	539	539
EPS (Rs)	3.7	2.4	2.2	1.8

Source: Company Data, PL Research

Key Financial Metrics

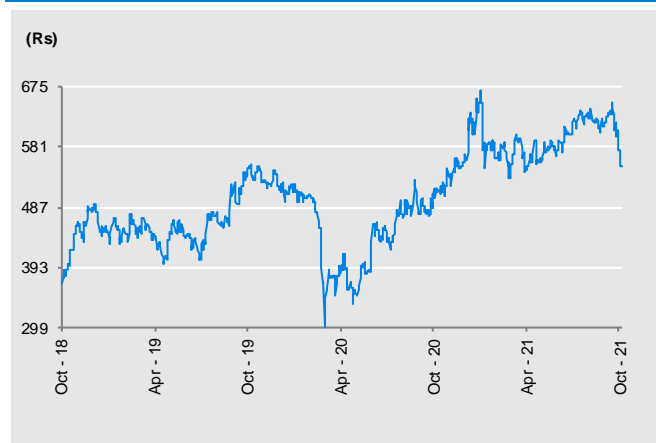
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	10.3	9.4	14.1	16.8
CEPS	12.9	12.3	17.1	20.2
BVPS	75.7	80.6	89.7	100.5
FCF	3.1	4.8	5.5	6.6
DPS	4.4	4.5	5.0	6.0
Return Ratio(%)				
RoCE	18.0	15.3	21.2	22.7
ROIC	16.7	14.7	21.3	23.8
RoE	14.1	12.0	16.5	17.7
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	87	71	64	63
Valuation(x)				
PER	54.2	59.5	39.8	33.3
P/B	7.4	6.9	6.2	5.6
P/CEPS	12.9	12.3	17.1	20.2
EV/EBITDA	34.7	36.6	25.4	21.3
EV/Sales	6.3	4.8	4.1	3.6
Dividend Yield (%)	0.8	0.8	0.9	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Volume Gr %	(9.5)	18.0	15.0	13.0
Gross Margins %	37.9	32.8	36.6	37.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	Accumulate	661	646
2	02-Aug-21	Accumulate	661	628
3	05-Jul-21	Accumulate	620	587
4	10-May-21	Accumulate	620	566
5	07-Apr-21	BUY	653	596
6	03-Feb-21	BUY	653	579
7	07-Jan-21	UR	-	613
8	03-Nov-20	BUY	551	513

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,675	3,002
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,852	1,532
7	Crompton Greaves Consumer Electricals	BUY	530	451
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,400	1,286
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,501	19,368
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

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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