

November 3, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	551		550	
Sales (Rs. m)	52,192	60,627	51,931	60,142
% Chng.	0.5	0.8		
EBITDA (Rs. m)	9,659	11,712	9,682	11,695
% Chng.	(0.2)	0.1		
EPS (Rs.)	11.8	14.5	11.8	14.5
% Chng.	(0.1)	0.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	49,432	43,805	52,192	60,627
EBITDA (Rs. m)	7,816	8,048	9,659	11,712
Margin (%)	15.8	18.4	18.5	19.3
PAT (Rs. m)	5,354	5,213	6,345	7,819
EPS (Rs.)	9.9	9.7	11.8	14.5
Gr. (%)	14.6	(2.6)	21.7	23.2
DPS (Rs.)	2.6	4.4	4.0	5.0
Yield (%)	0.5	0.9	0.8	1.0
RoE (%)	14.8	13.3	14.8	16.5
RoCE (%)	18.3	17.1	19.2	21.4
EV/Sales (x)	5.5	6.1	5.1	4.3
EV/EBITDA (x)	34.8	33.4	27.5	22.4
PE (x)	51.7	53.1	43.6	35.4
P/BV (x)	7.3	6.8	6.2	5.5

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.557 / Rs.294
Sensex / Nifty	40,261 / 11,814
Market Cap	Rs.277bn/ \$ 3,719m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.284.16m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	4.03
Domestic Institution	12.19
Public & Others	8.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.7	24.1	(4.7)
Relative	0.7	3.9	(4.9)

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Growth set to Accelerate: BUY

Quick Pointers:

- Decorative paint volumes grew in High double digits during 2QFY21
- Raw material prices firming up gradually, continued volatility in forex rates.

We have tweaked FY21/22/23 EPS by 6.3%/ -0.1% / 0.3% due to high double digit growth in decorative segment on the back of strong demand post unlock and strong pickup in Automotive and other Industrial coatings. KNPL is well placed to capitalize on rising demand in decorative paints given success of its economy segment and higher dependence on tier2/3 cities (least impacted due to the pandemic). Industrial segment reported marginally negative growth however recovery has set in from September'20 as 1) largest client MSIL's reported 16.2% volume growth for Q2FY21 and 19% for Oct'20 2) strong demand for powder coatings led by Consumer Durables (Havells, CG and White Goods players) and 3) rising spends on Infra and housing.

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 from appliances, infra coatings, transport/metros, rebar and Industrial applications. KNPL trades at 35.4x FY23 EPS which is at 30% discount to FY23 PE of APNT (50x) v/s historical average of 15%. Retain Buy with a target price of Rs551 (38x FY23 EPS).

Double digit volume growth, margins up 300bps: Net Sales increased 3.6% YoY to Rs12.88bn (est. Rs12.87bn). Gross margins were up 90bps YoY (down 240bps QoQ) to 39.2% (est 40%) due to benign raw material prices however rates were seen firming up gradually along with continued volatility in forex rates. EBITDA increased 21.8% YoY to Rs2.59bn (est Rs2.51bn) with margins expanding 300bps to 20.1%(est 19.5%) due to expansion in gross margins and lower employee cost and other expenses by 60bps and 150 bps. Adj. PAT decreased 12.4% YoY to Rs1.69bn (est. Rs1.67bn) due to higher tax rate of 26.2% (-3.4% in Q2FY20)

Auto Paints to recover: MSIL's 16.2% and 19% wholesale volume growth for 2Q21 and Oct'20 indicate recovery in Auto industry on the back of strong rural demand ii) lower inventory levels iii) higher LTVs (LTV for PVs increased ~90% v/s 80% during lockdown phase) and iv) New model launches which augurs well for Kansai as Auto paints are ~28% of total sales.

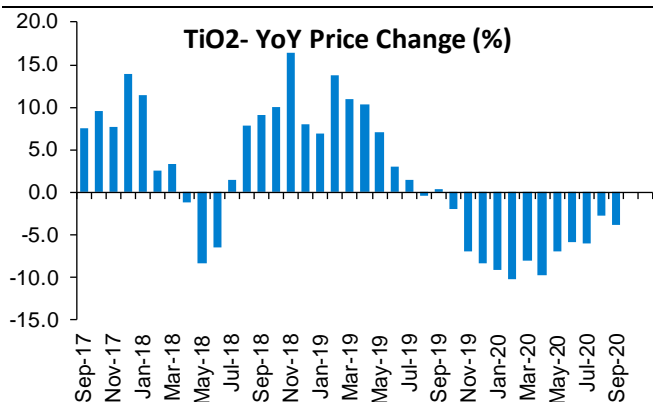
Consumer Durable and New segments to reduce cyclicality: Consumer durables also grew during 2QFY21 and returned to normalcy. Outlook on consumer durables remains positive which will enable recovery in industrial segment. Kansai's entry into niche segments like coil coatings, bridges & pipe coatings, rebar coatings, floor coatings will enable it to diversify its presence in the industrial segment and ensure faster recovery.

Exhibit 1: Sales grew 3.6%, Margins expand 300bps

	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY21	YoY gr. (%)
Total Revenue	12,881	12,435	3.6	5,981	18,861	27,070	(30.3)
Gross Profit	5,056	4,774	5.9	2,491	7,546	10,372	(27.2)
% of NS	39.2	38.4		41.6	40.0	38.3	
Other Expenses	2,462	2,645	(6.9)	1,686	4,148	5,753	(27.9)
% of NS	19.1	21.3		28.2	22.0	21.3	
EBITDA	2,594	2,129	21.8	805	3,399	4,620	(26.4)
Margins %	20.1	17.1		13.5	18.0	17.1	
Depreciation	330	286	15.3	318	649	564	15.0
Interest	11	12	(10.5)	13	24	25	
PBT from operations	2,252	1,831	23.0	474	2,726	4,030	(32.4)
Other Income	43	39	10.2	79	123	105	17.4
PBT	2,296	1,870	22.8	553	2,849	4,135	(31.1)
Tax	602	(64)	(1,040.8)	126	728	722	0.8
Tax rate %	26.2	(3.4)	29.6	22.8	25.6	17.5	8.1
Adjusted PAT	1,694	1,934	(12.4)	427	2,121	3,413	(37.9)

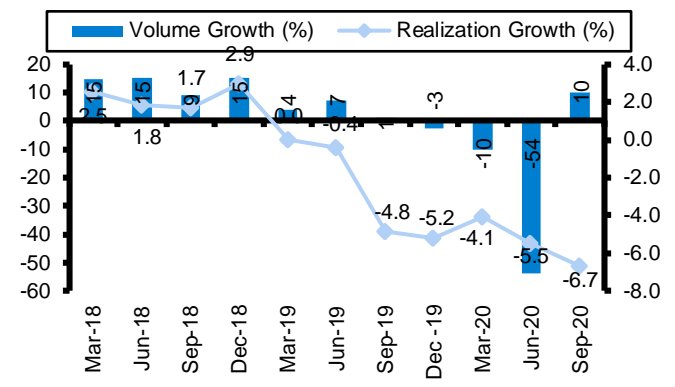
Source: Company, PL

Exhibit 2: TiO2 is down 4.2% YoY but up 0.4% QoQ



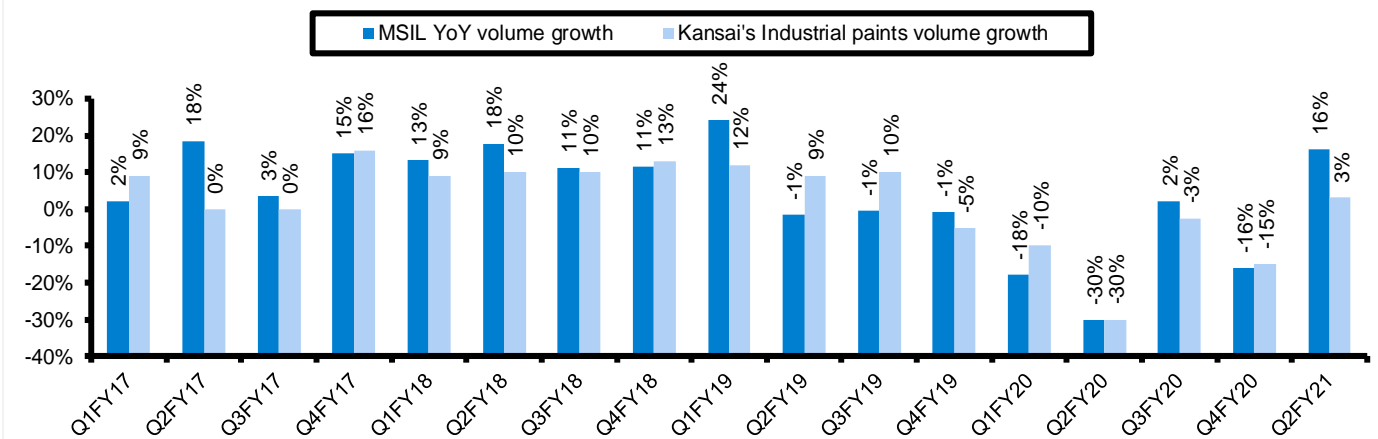
Source: Company, PL

Exhibit 3: Volume Growth estimated at 10%



Source: Company, PL

Exhibit 4: Kansai's Industrial Paints volume mirror MSIL sales



Source: Company, PL (1Q nos not considered as being exceptional event)

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	49,432	43,805	52,192	60,627
YoY gr. (%)	(4.5)	(11.4)	19.1	16.2
Cost of Goods Sold	30,576	26,120	31,233	36,153
Gross Profit	18,856	17,685	20,959	24,474
Margin (%)	38.1	40.4	40.2	40.4
Employee Cost	2,694	2,628	2,923	3,213
Other Expenses	8,346	3,855	4,567	5,214
EBITDA	7,816	8,048	9,659	11,712
YoY gr. (%)	5.3	3.0	20.0	21.2
Margin (%)	15.8	18.4	18.5	19.3
Depreciation and Amortization	1,199	1,330	1,432	1,550
EBIT	6,617	6,718	8,228	10,161
Margin (%)	13.4	15.3	15.8	16.8
Net Interest	50	65	68	71
Other Income	269	313	320	359
Profit Before Tax	6,836	6,966	8,479	10,449
Margin (%)	13.8	15.9	16.2	17.2
Total Tax	1,482	1,753	2,134	2,630
Effective tax rate (%)	21.7	25.2	25.2	25.2
Profit after tax	5,354	5,213	6,345	7,819
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,354	5,213	6,345	7,819
YoY gr. (%)	14.6	(2.6)	21.7	23.2
Margin (%)	10.8	11.9	12.2	12.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,354	5,213	6,345	7,819
YoY gr. (%)	14.6	(2.6)	21.7	23.2
Margin (%)	10.8	11.9	12.2	12.9
Other Comprehensive Income	(10)	-	-	-
Total Comprehensive Income	5,344	5,213	6,345	7,819
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	9.9	9.7	11.8	14.5

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	10,034	11,249	12,572
Tangibles	8,759	9,866	11,073	12,387
Intangibles	161	168	176	185
Net fixed assets	15,976	17,015	18,310	19,497
Tangibles	15,948	16,985	18,278	19,464
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	2,341	2,469	2,632
Current Assets				
Investments	3,051	3,109	3,168	3,228
Inventories	9,301	11,246	11,246	11,246
Trade receivables	6,745	5,968	7,114	8,266
Cash & Bank Balance	1,663	4,540	7,501	11,524
Other Current Assets	1,831	1,314	1,566	1,819
Total Assets	45,924	49,237	55,099	61,959
Equity				
Equity Share Capital	539	539	539	539
Other Equity	37,330	40,172	44,361	49,486
Total Networkth	37,869	40,710	44,900	50,025
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	5,746	7,184	8,677
Other current liabilities	1,521	1,348	1,539	1,734
Total Equity & Liabilities	45,925	49,238	55,100	61,959

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,836	6,966	8,479	10,449
Add. Depreciation	1,199	1,330	1,432	1,550
Add. Interest	50	65	68	71
Less Financial Other Income	269	313	320	359
Add. Other	150	1,712	(96)	(130)
Op. profit before WC changes	8,235	10,073	9,883	11,941
Net Changes-WC	(1,177)	(331)	163	214
Direct tax	(1,482)	(1,753)	(2,134)	(2,630)
Net cash from Op. activities	5,576	7,988	7,912	9,526
Capital expenditures	(2,513)	(2,725)	(2,727)	(2,737)
Interest / Dividend Income	-	-	-	-
Others	(441)	-	-	-
Net Cash from Inv. activities	(2,954)	(2,725)	(2,727)	(2,737)
Issue of share cap. / premium	0	-	-	-
Debt changes	(34)	50	-	-
Dividend paid	(1,689)	(2,371)	(2,156)	(2,695)
Interest paid	(50)	(65)	(68)	(71)
Others	-	-	-	-
Net cash from Fin. activities	(1,773)	(2,386)	(2,224)	(2,766)
Net change in cash	849	2,877	2,962	4,022
Free Cash Flow	3,063	5,263	5,185	6,788

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	12,481	9,880	5,981	12,881
YoY gr. (%)	(7.6)	(14.3)	(59.1)	3.6
Raw Material Expenses	7,801	6,078	3,490	7,825
Gross Profit	4,681	3,802	2,491	5,056
Margin (%)	37.5	38.5	41.6	39.2
EBITDA	1,919	1,278	805	2,594
YoY gr. (%)	8.4	(14.6)	(67.7)	21.8
Margin (%)	15.4	12.9	13.5	20.1
Depreciation / Depletion	314	320	318	330
EBIT	1,605	958	487	2,264
Margin (%)	12.9	9.7	8.1	17.6
Net Interest	12	13	13	11
Other Income	124	40	79	43
Profit before Tax	1,717	985	553	2,296
Margin (%)	13.8	10.0	9.2	17.8
Total Tax	490	270	126	602
Effective tax rate (%)	28.6	27.4	22.8	26.2
Profit after Tax	1,227	715	427	1,694
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,227	715	427	1,694
YoY gr. (%)	8.8	(23.0)	(71.1)	(12.4)
Margin (%)	9.8	7.2	7.1	13.1
Extra Ord. Income / (Exp)	-	-	-	(108)
Reported PAT	1,227	715	427	1,586
YoY gr. (%)	8.8	(23.0)	(71.1)	(18.0)
Margin (%)	9.8	7.2	7.1	12.3
Other Comprehensive Income	(4)	3	(5)	(5)
Total Comprehensive Income	1,222	717	423	1,581
Avg. Shares O/s (m)	539	539	539	539
EPS (Rs)	2.3	1.3	0.8	3.1

Source: Company Data, PL Research

Key Financial Metrics

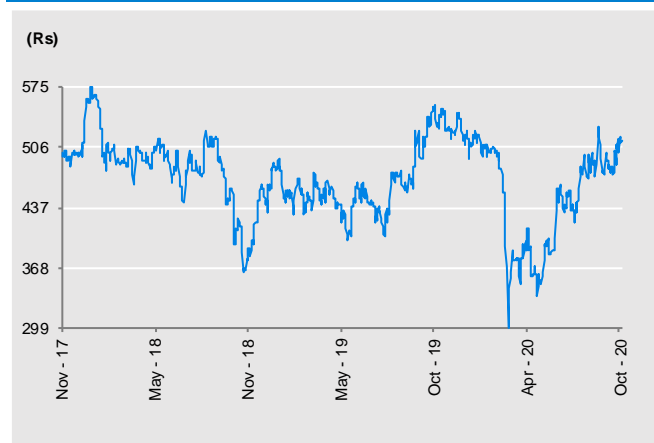
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	9.9	9.7	11.8	14.5
CEPS	12.2	12.1	14.4	17.4
BVPS	70.3	75.5	83.3	92.8
FCF	5.7	9.8	9.6	12.6
DPS	2.6	4.4	4.0	5.0
Return Ratio(%)				
RoCE	18.3	17.1	19.2	21.4
ROIC	16.5	15.9	19.1	23.2
RoE	14.8	13.3	14.8	16.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	80	96	78	65
Valuation(x)				
PER	51.7	53.1	43.6	35.4
P/B	7.3	6.8	6.2	5.5
P/CEPS	12.2	12.1	14.4	17.4
EV/EBITDA	34.8	33.4	27.5	22.4
EV/Sales	5.5	6.1	5.1	4.3
Dividend Yield (%)	0.5	0.9	0.8	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume Gr %	(1.5)	(8.8)	18.0	14.0
Gross Margins %	38.1	40.4	40.2	40.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	550	477
2	06-Oct-20	BUY	550	481
3	05-Aug-20	BUY	501	443
4	08-Jul-20	BUY	529	444
5	18-Jun-20	BUY	487	389
6	08-May-20	BUY	486	360
7	13-Apr-20	BUY	486	379
8	31-Jan-20	Accumulate	545	499
9	03-Jan-20	Accumulate	546	513

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	346	305
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	700	725
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	378	363
16	Nestle India	Hold	15,122	15,865
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,217
19	Voltas	Accumulate	702	672

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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