

February 4, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	651		707	
Sales (Rs. m)	74,454	83,547	70,799	80,490
% Chng.	5.2	3.8		
EBITDA (Rs. m)	10,516	12,593	11,426	13,490
% Chng.	(8.0)	(6.6)		
EPS (Rs.)	12.7	15.5	14.1	16.8
% Chng.	(9.4)	(7.9)		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	46,900	61,569	74,454	83,547
EBITDA (Rs. m)	8,479	7,243	10,516	12,593
Margin (%)	18.1	11.8	14.1	15.1
PAT (Rs. m)	5,566	4,478	6,864	8,349
EPS (Rs.)	10.3	8.3	12.7	15.5
Gr. (%)	4.0	(19.5)	53.3	21.6
DPS (Rs.)	4.4	4.5	4.0	5.5
Yield (%)	0.8	0.8	0.7	1.0
RoE (%)	14.1	10.7	15.1	16.5
RoCE (%)	18.0	13.6	19.4	21.3
EV/Sales (x)	6.1	4.6	3.8	3.3
EV/EBITDA (x)	33.5	39.1	26.7	22.1
PE (x)	52.3	65.1	42.5	34.9
P/BV (x)	7.1	6.7	6.1	5.5

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.675 / Rs.520
Sensex / Nifty	58,645 / 17,516
Market Cap	Rs.291bn/ \$ 3,901m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.189.77m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	3.57
Domestic Institution	13.21
Public & Others	8.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.7)	(14.5)	(7.1)
Relative	(6.8)	(20.8)	(19.9)

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Road to recovery longer than expected

Quick Pointers:

- Decorative volume/value witnessed high single digit/double digit growth.
- 21% price hike in decorative and 18% in industrial coatings
- On-track to expand distribution by 5-10% per annum

We are cutting our FY22/23/24 EPS estimates by 11.7/9.4/7.9% on mainly due to 1) road to margin recovery might be longer than anticipated on sustained input cost inflation and carry over inventory 2) slower decorative growth in tier2/3 where Kansai has stronger presence leading to sustained loss of market share. 3Q results had one time gain of Rs369mn (reversal of trade deposits on Tinting machines) excluding which EBIDTA margin declined 20Bps QoQ with 47% decline in Adj PAT.

We expect volumes to recover led by 1) gradual recovery in decorative paints demand in Tier2/3 cities 2) resolution of semiconductor issue in Automobiles and 3) rising consumer acceptance in construction chemicals, adhesive and wood coatings and 4) Industrial paints innovations in powder coatings (appliances), infra coatings, metros, rebar and Industrial applications.

We now estimate GM to recover from 31.1% in FY22 to 35.5% by FY24. We estimate PAT CAGR of 37.5% over FY21-24 and value the stock at 42x FY24 EPS assigning a TP of Rs651 (Rs707 earlier). Sustained decorative market share loss and aggressive decorative entry by Grasim are key risks to our call. Retain Buy

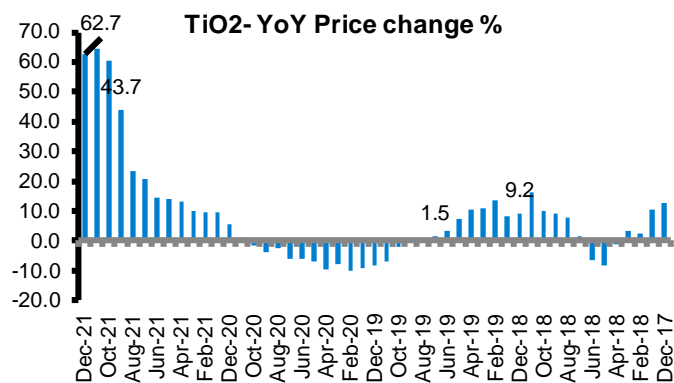
Revenue in line with Estimate up 13.1%, Margins contracted by 721bps: Revenues grew by 13.1% YoY to Rs16.9bn (PLe: Rs16.9bn). Gross margins contracted by 714bps YoY to 31.4% (PLe: 28.5%). EBITDA declined by 28.5% YoY to Rs2.1bn (PLe: Rs1.9bn); Margins contracted by 721bps YoY to 12.4% (PLe:11%) due to inflationary pressures & volatility in crude and exchange rates. Adjusted PAT declined by 34.7% YoY to Rs1.3bn (PLe:Rs1.2bn)

Concall Highlights: 1) Inflation, Supply chain challenges & semiconductor issue in auto segment continue to remain. 2) Decorative growth led by urban demand. While economy range suffered due to tepid rural demand. 3) Cumulative >20% price increase taken in decorative whereas average price hike of 18% across industrial segments. 3) Price increase not able to mitigate inflation pressure, may take further round of price hike. 4) Margins are at multi year low, and unprecedented inflation in industrial segment led to remain cautious over margins in near term. 5) Current utilization levels are sufficient at 60% & with incremental capex of Rs 60Cr per year. 6) Aggressive towards premium category to improve margins. 7) Within Emulsion: super premium category grew at higher rate; Auto demand remain muted 8) Drop in demand in late Dec' due to restrictions will show up when situation normalize.

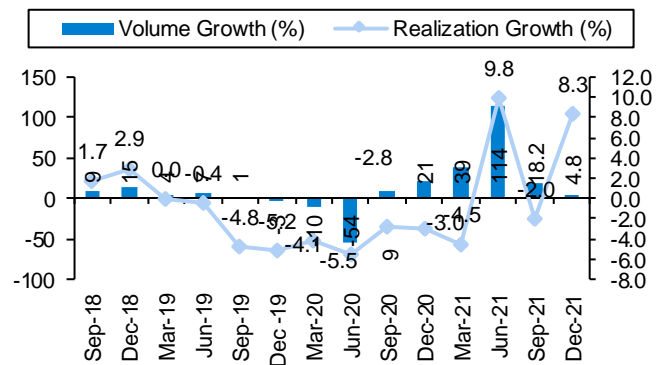
Exhibit 1: Sales grew 10.7% YoY, EBITDA Margins halved to 10.6% YoY

Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	9MFY22	9MFY21	YoY gr. (%)
Total Revenue	16,588	14,981	10.7	15,207	45,361	34,151	32.8
Gross Profit	4,961	5,767	(14.0)	4,397	14,245	13,450	5.9
<i>% of NS</i>	29.9	38.5	(8.6)	28.9	31.4	39.4	(8.0)
Other Expenses	3,210	2,830	13.4	2,751	8,601	7,081	21.5
<i>% of NS</i>	19.4	18.9	0.5	18.1	19.0	20.7	(1.8)
EBITDA	1,751	2,937	(40.4)	1,647	5,644	6,369	(11.4)
<i>Margins %</i>	10.6	19.6	(9.1)	10.8	12.4	18.6	(6.2)
Depreciation	390	362	7.7	380	1,147	1,061	8.1
Interest	23	12		23	72	43	
PBT from operations	1,339	2,563	(47.8)	1,244	4,424	5,265	(16.0)
Other Income	93	141	(33.9)	62	252	264	(4.4)
PBT	1,432	2,704	(47.1)	1,306	4,677	5,529	(15.4)
Tax	370	677	(45.4)	321	1,179	1,400	(15.8)
<i>Tax rate %</i>	25.8	25.0	0.8	24.5	25.2	25.3	(0.1)
Adjusted PAT	1,062	2,027	(47.6)	985	3,498	4,129	(15.3)

Source: Company, PL

Exhibit 2: 3Q22 TiO2 prices up 29.5% YoY, 62.7% QoQ


Source: Company, PL

Exhibit 3: Volume Growth estimated at 4.8%


Source: Company, PL

Exhibit 4: New products launched in decorative segment


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	46,900	61,569	74,454	83,547
YoY gr. (%)	(5.1)	31.3	20.9	12.2
Cost of Goods Sold	29,116	42,412	48,675	53,911
Gross Profit	17,784	19,157	25,779	29,636
Margin (%)	37.9	31.1	34.6	35.5
Employee Cost	2,586	3,017	3,648	4,177
Other Expenses	4,308	5,203	6,440	7,102
EBITDA	8,479	7,243	10,516	12,593
YoY gr. (%)	8.5	(14.6)	45.2	19.8
Margin (%)	18.1	11.8	14.1	15.1
Depreciation and Amortization	1,390	1,533	1,667	1,827
EBIT	7,089	5,710	8,849	10,765
Margin (%)	15.1	9.3	11.9	12.9
Net Interest	75	94	130	161
Other Income	387	369	454	553
Profit Before Tax	7,401	5,984	9,173	11,157
Margin (%)	15.8	9.7	12.3	13.4
Total Tax	1,835	1,506	2,309	2,808
Effective tax rate (%)	24.8	25.2	25.2	25.2
Profit after tax	5,566	4,478	6,864	8,349
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,566	4,478	6,864	8,349
YoY gr. (%)	4.0	(19.5)	53.3	21.6
Margin (%)	11.9	7.3	9.2	10.0
Extra Ord. Income / (Exp)	(108)	313	-	-
Reported PAT	5,458	4,791	6,864	8,349
YoY gr. (%)	1.9	(12.2)	43.3	21.6
Margin (%)	11.6	7.8	9.2	10.0
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	5,460	4,791	6,864	8,349
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	10.3	8.3	12.7	15.5

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	2,738	3,250	3,687
Current Assets				
Investments	6,681	7,654	9,201	11,518
Inventories	10,902	12,219	13,318	14,956
Trade receivables	8,362	9,206	11,149	12,065
Cash & Bank Balance	753	884	1,043	1,192
Other Current Assets	2,179	1,847	2,234	2,506
Total Assets	52,091	55,638	62,496	69,320
Equity				
Equity Share Capital	539	539	539	539
Other Equity	40,270	42,636	47,344	52,729
Total Networkth	40,809	43,175	47,883	53,268
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	9,755	11,682	12,939
Other current liabilities	1,581	1,241	1,417	1,549
Total Equity & Liabilities	52,091	55,639	62,497	69,320

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	7,251	5,984	9,173	11,157
Add. Depreciation	1,390	1,533	1,667	1,827
Add. Interest	75	94	130	161
Less Financial Other Income	387	369	454	553
Add. Other	781	779	(478)	(402)
Op. profit before WC changes	9,497	8,391	10,491	12,744
Net Changes-WC	(4,259)	(1,477)	(2,886)	(3,764)
Direct tax	(1,835)	(1,506)	(2,309)	(2,808)
Net cash from Op. activities	3,403	5,408	5,296	6,172
Capital expenditures	(1,713)	(2,806)	(2,851)	(2,898)
Interest / Dividend Income	-	-	-	-
Others	(156)	-	-	-
Net Cash from Inv. activities	(1,869)	(2,806)	(2,851)	(2,898)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	50	-	-
Dividend paid	(2,371)	(2,425)	(2,156)	(2,964)
Interest paid	(75)	(94)	(130)	(161)
Others	3	-	(1)	-
Net cash from Fin. activities	(2,443)	(2,469)	(2,286)	(3,125)
Net change in cash	(910)	132	158	148
Free Cash Flow	1,690	2,601	2,445	3,273

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	13,305	13,216	15,140	16,588
YoY gr. (%)	34.7	121.0	17.5	12.6
Raw Material Expenses	8,729	8,679	10,810	11,627
Gross Profit	4,576	4,537	4,329	4,961
Margin (%)	34.4	34.3	28.6	29.9
EBITDA	2,034	1,897	1,579	1,751
YoY gr. (%)	59.1	135.7	(39.1)	(39.6)
Margin (%)	15.3	14.4	10.4	10.6
Depreciation / Depletion	405	377	380	390
EBIT	1,629	1,520	1,199	1,361
Margin (%)	12.2	11.5	7.9	8.2
Net Interest	40	27	23	23
Other Income	124	97	62	93
Profit before Tax	1,713	1,590	1,238	1,432
Margin (%)	12.9	12.0	8.2	8.6
Total Tax	435	401	321	370
Effective tax rate (%)	25.4	25.2	25.9	25.8
Profit after Tax	1,278	1,189	917	1,062
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,278	1,189	917	1,062
YoY gr. (%)	78.8	178.3	(45.8)	(47.4)
Margin (%)	9.6	9.0	6.1	6.4
Extra Ord. Income / (Exp)	-	-	51	262
Reported PAT	1,278	1,189	968	1,324
YoY gr. (%)	78.8	178.3	(38.9)	(34.4)
Margin (%)	9.6	9.0	6.4	8.0
Other Comprehensive Income	15	(2)	(2)	(2)
Total Comprehensive Income	1,293	1,187	967	1,322
Avg. Shares O/s (m)	539	539	539	539
EPS (Rs)	2.4	2.2	1.7	2.0

Source: Company Data, PL Research

Key Financial Metrics

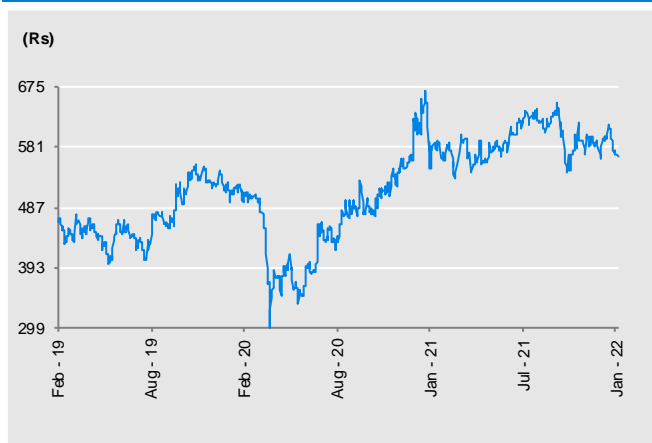
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	10.3	8.3	12.7	15.5
CEPS	12.9	11.2	15.8	18.9
BVPS	75.7	80.1	88.9	98.8
FCF	3.1	4.8	4.5	6.1
DPS	4.4	4.5	4.0	5.5
Return Ratio(%)				
RoCE	18.0	13.6	19.4	21.3
ROIC	16.7	12.8	18.7	21.2
RoE	14.1	10.7	15.1	16.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	87	69	63	62
Valuation(x)				
PER	52.3	65.1	42.5	34.9
P/B	7.1	6.7	6.1	5.5
P/CEPS	12.9	11.2	15.8	18.9
EV/EBITDA	33.5	39.1	26.7	22.1
EV/Sales	6.1	4.6	3.8	3.3
Dividend Yield (%)	0.8	0.8	0.7	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Volume Gr %	(9.5)	21.0	10.0	11.0
Gross Margins %	37.9	31.1	34.6	35.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Jan-22	BUY	707	596
2	13-Dec-21	BUY	707	597
3	27-Oct-21	Accumulate	651	560
4	6-Oct-21	Accumulate	661	646
5	2-Aug-21	Accumulate	661	628
6	5-Jul-21	Accumulate	620	587
7	10-May-21	Accumulate	620	566
8	7-Apr-21	BUY	653	596

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,762	3,306
2	Avenue Supermarts	Accumulate	5,345	4,731
3	Bajaj Electricals	Accumulate	1,230	1,223
4	Britannia Industries	BUY	4,139	3,535
5	Burger King India	BUY	220	133
6	Colgate Palmolive	Accumulate	1,733	1,394
7	Crompton Greaves Consumer Electricals	BUY	533	425
8	Dabur India	Accumulate	647	557
9	Emami	Accumulate	624	498
10	Havells India	Accumulate	1,381	1,309
11	Hindustan Unilever	BUY	2,900	2,262
12	ITC	BUY	284	234
13	Jubilant FoodWorks	Accumulate	3,600	3,302
14	Kansai Nerolac Paints	BUY	707	596
15	Marico	Accumulate	546	472
16	Mold-tek Packaging	BUY	793	706
17	Nestle India	Accumulate	18,723	19,936
18	Pidilite Industries	Hold	2,491	2,461
19	Titan Company	BUY	2,832	2,475
20	Voltas	Hold	1,200	1,250
21	Westlife Development	BUY	648	497

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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