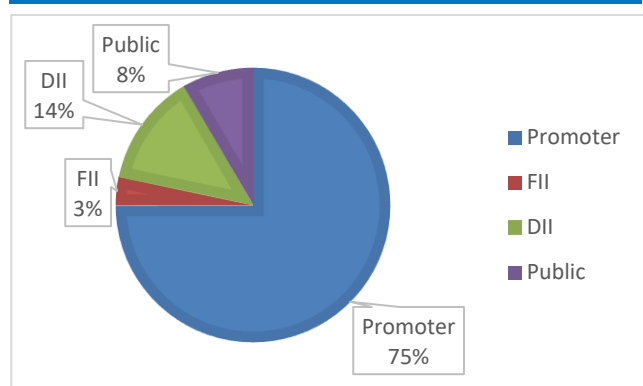


September 2022

## VALUE PARAMETERS

Face Value (Rs.)	1.00
Mrk.Cap (Rs. in Cr)	25,814
52-Week High/Low	675/358
EPS (TTM)	7.44
P/E Ratio (TTM)	67.3
Book Value per share (Rs)	76.7
Industry P/E	67.6
P/B Ratio (calc at CMP)	6.26
Dividend Yield (%)	0.43
Enterprise value (Rs in Cr)	25,911

## SHAREHOLDING PATTERN



## FINANCIAL PERFORMANCE

	FY22	FY23E	FY24E
Sales (Rs. Cr)	6,369.35	7,517	8,495
Growth (%)	25.5	18.1	13
Expenditures	5,720	6,501	7,270
EBITDA (Rs. Cr)	649.35	1,016	1225
EBITDA margin	10.20	13.51	14.42
PAT (Rs. Cr)	358.86	605	766
PAT margin (%)	5.63	8.0	9.01
EPS (Rs)	6.66	11.5	14.5
RoE (%)	8.38	14	15.8
RoCE (%)	11.8	10	11.5
P/BV (x)	6.09	6	5.4
EV/EBITDA (x)	37.46	26.6	22
P/E (x)	70.16	42.1	32.5

## Demand revives-Industrial paint leads the growth...

**Our Recommendation:** Kansai Nerolac's Q1FY23 performance is way better than estimates led by good recovery in Industrial and decorative paint segments. New product launch in first quarter and recovery in demand of automotive sector after chip shortages ease off, drove the growth. Company also reported regaining lost market share in decorative paint segment which now stands 55% of total revenue. These will be main factors for future revenue growth. Price hike to help improve gross margin. Company's focus on product mix, launching premium and super premium products will drive margin improvement in future. Given these scenarios, we recommend BUY in price range Rs. 460-480 with target price Rs 580 (upside 23%).

## Investment Rationale:

**About Company:** Kansai Nerolac Paints Ltd (KNPL) is a 74.99% subsidiary of Kansai Paints Co. Ltd. in Japan. The parent company is one of the top ten paint companies in the world, with manufacturing facilities in more than 43 countries. KNPL is India's largest industrial paint and third largest decorative paint company. While consistently strengthening its position in these traditional markets, the company continues to expand into new customer need areas such as wood coating, adhesives, construction chemicals in decorative and floor coatings, transportation coatings, coil coatings, rebar coatings, and super durable powders in the industrial coatings segment.

## Q1FY23 Results: Increased demand of industrial paints drives topline.

- Revenue increased by 46.24% in Q1FY23 YoY aided by double digit volume growth, with 20%+ in decorative and 30% in industrial and automotive paints.
- Gross margin reduced by 460 bps YoY to 29.9% due to inflation pressure and delay in price hike. EBITDA margin contraction is limited to 115bps YoY basis on account of managing employee cost and other expenditures.
- Net profit increased by 36.51% to Rs. 152.05 crores from 111.38 crores in the previous quarter last year.

**Industrial paint segment drives the growth:** Demand increased in this segment due to spike in demand of automotive industry after chip shortages ease off. This segment contributes 45% in revenue; out of which automotive sector contribute 70% to industrial segment. We think industrial segment to lead growth in coming quarters because the company is planning to introduce high-end technology and premium products.

## Key Highlights from con-call:

- Higher demand for decorative paints from Tier 1 cities and metro cities. Company holds 10% market share in this segment among listed players.
- Company is planning to add premium and super premium products in decorative paint segment.
- Company increased price by 2% in first quarter of this fiscal and more hike is expected to offset inflationary pressure.
- Due to higher demand in industrial pain segment, new product launches in decorative segment, and price hike may affect margins positively.
- Distribution touch points grew 7% from 27,000-28,000 in FY22.
- Company plans capex of Rs 290 crore in FY23-F24E to increase water-based paints capacity.

## Financials and Valuations

### Q1FY23 Quarterly financials consolidated (Rs in Cr)

Y/E March	Q1FY23	Q4FY22	Q1FY22	Chg YoY (%)	Chg QoQ (%)
<b>Net Sales</b>	<b>2,051.4</b>	<b>1,536.6</b>	<b>1,403</b>	<b>46.24%</b>	<b>33.50%</b>
<i>Cost of materials consumed</i>	1328.74	1155.22	832.16		
<i>Purchases of traded goods</i>	130.65	97.3	84.69		
(Incr.)/decr. in inventories, WIP, and traded good	-21.5	-145.1	6		
COGS	1,437.9	1,107.4	923		
<b>Gross Profit</b>	<b>613.5</b>	<b>429.2</b>	<b>479.76</b>	<b>27.87%</b>	<b>42.95%</b>
Gross Profit margin %	0.3	0.3	34.20%		
Employee benefits expense	88.4	107.7	82		
Other expenses	270.0	237.5	207		
<i>Operating Expenses</i>	<i>358.43</i>	<i>345.24</i>	<i>289.24</i>		
<b>EBITDA</b>	<b>255.04</b>	<b>83.92</b>	<b>190.52</b>	<b>33.87%</b>	<b>203.91%</b>
EBITDA Margin %	0.1	0.1	0		
Deprec./amrt. expense	43.13	43.04	41.72		
<b>EBIT</b>	<b>211.9</b>	<b>40.9</b>	<b>149</b>	<b>42.41%</b>	<b>418.37%</b>
<i>EBIT Margin %</i>	<i>10.33%</i>	<i>2.66%</i>	<i>10.61%</i>		
Finance costs	8.49	7.82	6.66		
Other income	4.83	-0.97	9.94		
PBT	208.25	32.09	152.08		
Total Tax	56.2	12.92	40.7		
<b>Net Profit</b>	<b>152.05</b>	<b>19.17</b>	<b>111.38</b>	<b>36.51%</b>	<b>693.17%</b>
Net Profit margin %	7.41%	1.25%	7.94%		

### Income Statement, consolidated (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
<b>Net Revenues</b>	<b>4,808.52</b>	<b>5,424.32</b>	<b>5,279.97</b>	<b>5,074.25</b>	<b>6,369.35</b>
<i>Change (yoy, %)</i>	<i>12.5</i>	<i>12.8</i>	<i>-0.97</i>	<i>-96.00</i>	<i>25.5</i>
Expenditure	4,014.73	4,671.73	4,475.51	4,210.97	5,719.99
<b>EBIDTA</b>	<b>793.8</b>	<b>752.59</b>	<b>804.46</b>	<b>863.28</b>	<b>649.36</b>
<i>Change (yoy, %)</i>	<i>0.76</i>	<i>-0.94</i>	<i>6.8</i>	<i>0.73</i>	<i>-0.75</i>
<i>EBITDA Margin (%)</i>	<i>16.51%</i>	<i>13.87%</i>	<i>15.24%</i>	<i>17.01%</i>	<i>10.20%</i>
Depreciation	77	106	142	165.30	169.77
<b>EBIT</b>	<b>717</b>	<b>646</b>	<b>662</b>	<b>698</b>	<b>479.6</b>
Other Income	70.91	60.52	25.53	38.21	25.41
Interest	0.67	9.97	20.91	23.74	28.59
Exceptional items	0.00	0.00	0.00	0.00	0.00
<b>PBT</b>	<b>786.96</b>	<b>696.86</b>	<b>666.96</b>	<b>712.45</b>	<b>476.41</b>
Tax	273.21	249.13	151.18	186.73	133.26
<i>Effective tax rate (%)</i>	<i>34.7%</i>	<i>35.8%</i>	<i>22.7%</i>	<i>26.2%</i>	<i>28.0%</i>
<b>PAT</b>	<b>513.75</b>	<b>447.73</b>	<b>515.78</b>	<b>525.72</b>	<b>343.15</b>
EO Items	0.00	0.00	0.00	0.00	0.00
<b>Net Profit</b>	<b>513.75</b>	<b>447.73</b>	<b>515.78</b>	<b>525.72</b>	<b>343.15</b>
<i>Profit margin (%)</i>	<i>10.68%</i>	<i>8.25%</i>	<i>9.77%</i>	<i>10.36%</i>	<i>5.39%</i>
Min Int.	0.65	5.09	5.23	4.02	15.71
Shares associates	0.00	0.00	0.00	0.00	0.00
<b>Consolidated Net Profit</b>	<b>514.40</b>	<b>452.82</b>	<b>521.01</b>	<b>529.74</b>	<b>358.86</b>
<i>Profit margin (%)</i>	<i>10.70%</i>	<i>8.35%</i>	<i>9.87%</i>	<i>10.44%</i>	<i>5.63%</i>
<b>EPS</b>	<b>9.55</b>	<b>8.40</b>	<b>9.67</b>	<b>9.83</b>	<b>6.66</b>

**Balance Sheet, consolidated (Rs. Cr)**

Y/E March	FY18	FY19	FY20	FY21	FY22
<b>Shareholders' fund</b>	<b>3148.70</b>	<b>3436.42</b>	<b>3781.98</b>	<b>4089.18</b>	<b>4151.22</b>
Share Capital	53.89	53.89	53.89	53.89	53.89
Reserves & Surplus	3078.43	3,362.44	3,706.41	3999.01	4,078.33
Minority interest	16.38	20.09	21.68	36.28	19.00
<b>Total Debt</b>	<b>26.54</b>	<b>100.86</b>	<b>173.26</b>	<b>166.85</b>	<b>203</b>
Other liabilities	81.51	126.69	160.96	186.46	220.87
<b>Curr Liab &amp; prov</b>	<b>873.17</b>	<b>853.92</b>	<b>767.42</b>	<b>1090.47</b>	<b>1134.00</b>
Current liabilities	852.03	837.67	748.98	1068.26	1113.38
Provisions	21.14	16.25	18.44	22.21	20.62
<b>Total Liabilities</b>	<b>981.22</b>	<b>1081.47</b>	<b>1101.64</b>	<b>1443.78</b>	<b>1557.87</b>
<b>Total Equity &amp; Liabilities</b>	<b>4129.92</b>	<b>4517.89</b>	<b>4883.62</b>	<b>5532.96</b>	<b>5709.09</b>
<b>Non-Curr. Assets</b>	<b>1545.11</b>	<b>2197.72</b>	<b>2395.26</b>	<b>2355.67</b>	<b>2479.10</b>
Net Fixed Assets	1,030.90	1,404.70	1,831.05	1852.39	1949.38
Intangible assets	2.37	40.79	55.56	40.02	26.82
Goodwill	2.27	19.58	19.78	19.78	19.78
CWIP	345.98	316.35	169.1	206.85	224.58
Investments	0.89	1.14	1.03	1.13	1.26
Other Non-curr. assets	150.49	401	303.62	220.66	257.28
Long-term loans & Advanc.	12.21	14.16	15.12	14.84	0
<b>Current Assets</b>	<b>2584.99</b>	<b>2320.35</b>	<b>2488.54</b>	<b>3177.86</b>	<b>3230.28</b>
Inventories	829.18	1,111.06	1,008.35	1197.93	1,629.55
Trade receivables	702.64	755.58	786.98	956.35	1,093.33
Cash/Bank Balance	363.61	96.19	192.03	124.53	106
Current investments	519.96	195.56	305.1	668.06	209.46
Other current assets	166.28	156.74	191.21	224.21	191.94
Loans & Advances	3.32	5.22	4.87	6.78	0
<b>Total Assets</b>	<b>4129.92</b>	<b>4517.89</b>	<b>4883.62</b>	<b>5533.96</b>	<b>5709.09</b>

**Cash Flow statement (Rs. Cr)**

Y/E March	FY18	FY19	FY20	FY21	FY22
PBT	787	697	667	712	476.41
Adj. For Expenses	23	74	151	169	136
Other Adj.	-174	-360	-57	-79	-426
<b>CF After WC</b>	<b>636</b>	<b>411</b>	<b>761</b>	<b>802</b>	<b>186.41</b>
Tax	-276	-311	-166	-157	-162
<b>CF from Op. Activity (a)</b>	<b>360</b>	<b>100</b>	<b>595</b>	<b>645</b>	<b>24.41</b>
<b>CF from Inv. Activity (b)</b>	<b>-163</b>	<b>88</b>	<b>-376</b>	<b>-453</b>	<b>250</b>
<b>CF from Fin. Activity (c)</b>	<b>-192</b>	<b>-223</b>	<b>-141</b>	<b>-274</b>	<b>-309</b>
<b>Net Change (a+b+c)</b>	<b>5</b>	<b>-35</b>	<b>78</b>	<b>-82</b>	<b>-34.59</b>
Opening cash	55	60	25	103	21
Others	0	0	0	0	0
<b>Closing cash balance</b>	<b>60</b>	<b>25</b>	<b>103</b>	<b>21</b>	<b>-13.59</b>

**Key Ratios**

Y/E March	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Per Share Data (Rs)</b>					
EPS	9.55	8.40	9.67	9.83	6.66
BV/Share	58.12	63.39	69.78	75.21	76.68
DPS	3	3	3	5	2
Dividend Payout (%)	31.41%	35.71%	31.02%	50.86%	30.03%
<b>Valuation Ratios</b>					
P/E	52.82	54.43	39.94	61.10	70.16
P/BV	8.67	7.21	5.53	7.99	6.09
EV/EBITDA	31.04	30.32	25.06	35.96	37.46
<b>Return Ratios (%)</b>					
RoE	17.28%	13.67%	14.37%	13.46%	8.38%
RoCE	26.21%	21.12%	18.43%	18.03%	11.80%
<b>Leverage Ratio (x)</b>					
Current Ratio	2.9	2.44	2.71	2.56	2.44
Quick Ratio	1.97	1.27	1.61	1.6	1.21
Interest Cover Ratio	1175	70.89	32.9	31.01	17.66
Net Debt/Equity	0.01	0.03	0.05	0.04	0.05

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