

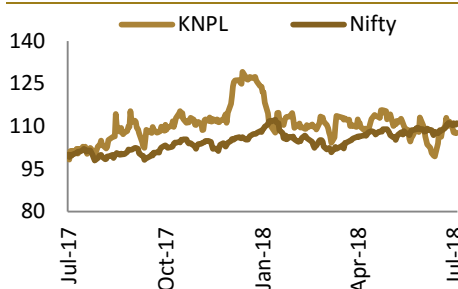
Market statistics

Current stock price (₹)	490
Shares O/S (cr.)	53.9
Mcap (₹ cr)	25,803
52W H/L (₹)	614/427
6m avg. volume	2,12,316
Bloomberg	KNPL IN

Shareholding pattern

Promoters	74.99
Domestic Institution	9.68
Foreign Institution	5.92
Non-institution	9.41
of which more than 1%	
Aberdeen Global	2.00
Aditya Birla Advantage Fund	1.66

KNPL vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	17.5	18.2	18.0
RoCE (%)	23.2	24.1	24.0
P/B (x)	8.7	7.7	6.8
EV/OCF (x)	44.1	45.7	43.3
EV/EBITDA (x)	31.8	27.0	23.9
P/E (x)	49.9	42.3	37.5

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Kansai Nerolac's (KNPL) 1QFY19 standalone PAT declined 1% YoY despite strong revenue growth. Comparable net sales increased 17% YoY on the back of strong double digit volume growth in both decorative and industrial segment. The effect of higher input costs is reflected in gross margins which declined 148bps YoY. EBITDA grew just 6% YoY to Rs2.2b tad lower than est. of Rs2.3b; while EBITDA margin contracted by 164bps YoY to 16%.

Subdued operating performance despite strong double digit volume growth

Revenue increased 17% YoY to Rs13.8b on the back of strong double digit volume growth in both industrial and decorative segment and better than our est. of Rs13.1b. In Decorative segment, companies have undertaken price hikes to an extent of 2% in May post 1.5% increase in the month of March. However price hikes comes with a lag in industrial segment for KNPL. Kansai is looking at increasing its revenue from decorative paints as decorative have higher margins and pricing power than industrial paints. It also has lower margin volatility than industrial paints.

On track to expand capacities in line with strong volume growth

KNPL has 4 factories located at Jainpur (UP), Lote (Maharashtra), Bawal (Haryana) and Hosur (Tamil Nadu). In addition, an industrial facility will be commissioned at Sayakha (Gujarat) to cater mainly to automobile customers. All activities of Phase-1 of the manufacturing unit have been completed and the unit is likely to commence operations shortly. KNPL is also setting up a 52800KLP A Decorative Plant at Amritsar at revised Capex of Rs2.2b and construction work of the manufacturing unit is in full swing and operations are likely to commence during FY19. Another Greenfield industrial plant at Vishakhapatnam is being planned, and land acquisition is over and the project is in the planning stage. The construction activities at Global R & D Centre at Vashi, Navi Mumbai have been completed and the unit is likely to commence operations in FY19.

Strong overseas subsidiary performance in FY18

For FY18, revenue of KNPL's Nepal subsidiary increased 19% YoY to Rs641m while PBT grew 32% YoY to Rs90.5m and PAT grew 27% YoY to Rs65m. Sri Lankan Subsidiary commenced operations in April 2017. The revenue for FY18 was Rs80.6m with a loss of Rs68m as KNPL was able to stabilize its operations only in 4QFY18.

In April 2018, KNPL acquired 100% equity shareholding in Marpol P. Ltd, Goa (Marpol), which is one of the leading companies in powder coating business, for an aggregate consideration of Rs360m. Marpol manufactures products such as epoxy polyester, pure polyester, pure epoxy and polyurethane powder. KNPL expects post acquisition synergy benefits in raw material and other miscellaneous costs.

Outlook & Valuation

Post strong double digit volume growth in decorative over last few quarters, maintaining the similar trajectory will be a key. Management's commentary remained constructive as it expects the growth momentum to sustain over the near term led by growth in infrastructure, automobile and housing sectors. Margins however are under pressure as price hike negotiations are under way. Over last decade KNPL has delivered 13%, 14% and 15% CAGR in revenue, EBITDA and PAT, respectively. We expect KNPL to deliver 17%, 14% and 15% CAGR growth over FY18-20E in revenue, EBITDA & PAT, respectively on the back of its rising focus on distribution network and rising domestic auto volumes.

Impending festive season, good monsoon, Government's thrust on housing and rural India, strong growth in automobile volume and impending industrial recovery remain the potential upside risks to KNPL's EPS. However at 37x FY20E EPS of Rs12.7, valuations appears full. Maintain **HOLD**.

**Exhibit 1: Quarter Performance**

Particulars (₹ mn)	1Q FY18	4Q FY18	1Q FY19	YoY Chg (%)
Total Income	11,736	11,036	13,759	17.2
Total RM	7,069	6,842	8,491	20.1
Gross Profit	4,667	4,194	5,268	12.9
Gross Margin (%)	39.8	38.0	38.3	-148bps
Employee Cost	532	571	636	19.7
% of sales	4.5	5.2	4.6	16bps
Other Expenditure	2,063	1,934	2,428	17.7
% of sales	17.6	17.5	17.6	-6bps
EBITDA	2,073	1,689	2,205	6.4
EBITDA Margin (%)	17.7	15.3	16.0	-164bps
Depreciation	181	197	204	13.0
Other Income	199	186	136	-31.6
EBIT	2,091	1,679	2,137	2.2
EBIT Margin (%)	17.8	15.2	15.5	-229bps
Interest	0	0	0	
PBT	2,091	1,679	2,137	2.2
Total Tax	683	621	738	8.1
Effective tax rate (%)	32.7	37.0	34.5	189bps
Reported PAT	1,408	1,058	1,398	-0.7
Adjusted PAT	1,408	1,058	1,398	-0.7



Financials – Consolidated

P&L Statement

Y/E Mar (₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	38,302	42,640	45,866	53,033	62,272
Change (%)	7.9	11.3	7.6	15.6	17.4
Raw Materials	20,921	23,430	27,741	29,168	35,495
Operating Expenses	10,529	11,904	10,227	14,648	16,489
EBITDA	6,852	7,307	7,898	9,217	10,288
Change (%)	27.3	6.6	8.1	16.7	11.6
Margin (%)	17.9	17.1	17.2	17.4	16.5
Depreciation	678	695	758	861	861
Int. and Fin. Charges	0	0	0	0	0
Other Income	248	982	724	797	876
Profit before Taxes	6,422	7,594	7,864	9,153	10,303
Tax	1,736	2,535	2,700	3,057	3,441
Tax Rate (%)	27.0	33.4	34.3	33.4	33.4
PBT Before Minority	4,686	5,059	5,164	6,096	6,862
Adjusted PAT	4,686	5,059	5,164	6,096	6,862
Change (%)	28.3	8.0	2.1	18.1	12.6
Margin (%)	12.2	11.9	11.3	11.5	11.0
Exceptional/Prior Period inc	5,353	0	0	0	0
Reported PAT	10,040	5,059	5,164	6,096	6,862

Balance Sheet

Y/E Mar (₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	539	539	539	539	539
Total Reserves	22,353	25,688	28,965	32,906	37,504
Net Worth	22,892	26,226	29,504	33,444	38,043
Long Term Borrowings	288	288	263	243	223
Deferred Tax Liability	841	841	841	841	841
Other LT Liabilities & provisions	169	169	169	169	169
Trade Payables	4,000	4,908	4,759	5,503	6,462
Other Current Liabilities	2,441	2,441	2,441	2,441	2,441
Short Term Borrowings	0	886	1,389	1,389	1,491
Total Liabilities	32,694	37,822	41,429	46,093	51,733
Net Fixed Assets	9,266	10,071	10,713	10,952	10,092
Capital WIP	420	920	1,520	1,420	1,420
Non current Investments	439	439	439	439	439
Long term loans & advances	729	729	729	729	729
Inventory	5,717	7,256	7,540	8,718	10,339
Account Receivables	5,246	7,079	6,866	7,939	9,322
Cash and Bank Balance	4,779	5,230	7,525	9,798	13,295
Short term loan & advances	1,016	1,016	1,016	1,016	1,016
Currents Investments	4,986	4,986	4,986	4,986	4,986
Total Assets	32,694	37,822	41,429	46,093	51,733



Cash Flow

Cash Flow Statement (₹ mn)	FY16	FY17	FY18	FY19E	FY20E
PBT before EO items	6,422	7,594	7,864	9,153	10,303
Add : Depreciation	678	695	758	861	861
Interest	0	0	0	0	0
Less : Direct taxes paid	1,736	2,535	2,700	3,057	3,441
(Inc)/Dec in WC	-1,017	2,465	218	1,507	2,045
CF from Operations	6,381	3,289	5,704	5,449	5,677
Extraordinary	5,443	0	0	0	0
CF from Op after extra	11,825	3,289	5,704	5,449	5,677
(Incr)/Decr in FA	874	2,000	2,000	1,000	0
(Pur)/Sale of Investments	3,269	0	0	0	0
CF from Invest.	-4,143	-2,000	-2,000	-1,000	0
Inc/(Dec) in equity	-1,473	0	0	0	0
Inc/(Dec) in debt	-127	886	478	-20	82
Dividend paid	1,644	1,725	1,886	2,156	2,263
CF from fin. activity	-3,243	-839	-1,409	-2,176	-2,181
Incr/Decr of Cash	4,438.4	450.8	2,295.0	2,273.6	3,496.3
Add: Opening Balance	340	4,779	5,230	7,525	9,798
Closing Balance	4,779	5,230	7,525	9,798	13,295

Key Ratios

Y/E Mar (%)	FY16	FY17	FY18	FY19E	FY20E
Raw Material Cost/Sales	54.6	54.9	60.5	55.0	57.0
Manpower Cost/Sales	19.2	19.7	21.1	23.9	29.9
Operating & Other Cost/Sales	22.9	23.3	17.4	22.7	21.6
Revenue Growth	7.9	11.3	7.6	15.6	17.4
EBITDA Margins	17.9	17.1	17.2	17.4	16.5
Net Income Margins	12.2	11.9	11.3	11.5	11.0
ROCE	25.5	24.0	23.2	24.1	24.0
ROE	20.5	19.3	17.5	18.2	18.0

Valuation Parameters

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (₹)	8.7	9.4	9.6	11.3	12.7
P/E (x)	32.4	40.4	49.9	42.3	37.5
BV (₹)	42.5	48.7	54.7	62.1	70.6
P/BV (x)	6.6	7.8	8.7	7.7	6.8
EV/EBITDA (x)	21.4	27.3	31.8	27.0	23.9
Fixed assets turnover ratio (x)	4.1	4.2	4.3	4.8	6.2
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	3.8	4.7	5.5	4.7	3.9

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