

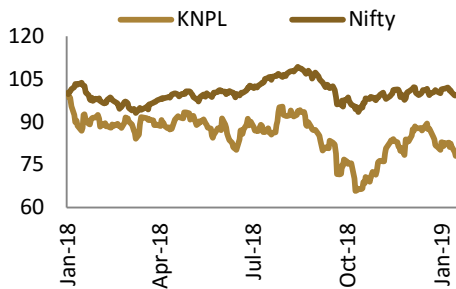
### Market statistics

Current stock price (₹)	432
Shares O/S (cr.)	53.9
Mcap (₹ cr)	23,192
52W H/L (₹)	543/343
6m avg. volume	2,41,035
Bloomberg	KNPL IN

### Shareholding pattern

Promoters	74.99
Domestic Institution	10.60
Foreign Institution	4.63
Non-institution more than 1%	9.78
Franklin India Debt Hybrid	1.25
Aditya Birla Advantage Fund	1.82

### KNPL vs Nifty



### Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	17.8	16.4	16.4
RoCE (%)	23.4	22.2	22.4
P/B (x)	7.4	6.6	5.8
EV/OCF (x)	33.5	57.4	35.3
EV/EBITDA (x)	27.7	25.9	22.6
P/E (x)	41.9	40.1	35.3

Research Analyst

Tushar Chaudhari

+91-22 4224 5119

tushar.chaudhari@trustgroup.in

**Kansai Nerolac's (KNPL) 3QFY19 standalone PAT declined 10% YoY despite strong revenue growth. Revenue increased 18% YoY on the back of strong double digit volume growth in decorative segment however industrial segment witnessed weakness. Lower growth in automotive industry especially negative growth in passenger cars led to lower demand for industrial segment. The effect of higher input costs is reflected in gross margins which declined 551bps YoY to 34.5%. EBITDA declined 8% YoY to Rs1.8b lower than est. of Rs2.1b; while EBITDA margin contracted by 369bps YoY to 13.1%. Although price hikes in industrial segment would come with lag, which along with softening crude would improve margins, demand in automotive segment seen muted. Maintain Hold.**

### Subdued operating performance despite strong double digit volume growth

Revenue increased 18% YoY to Rs13.5b; tad better than est. of Rs12.8b, on the back of strong double digit volume growth in decorative segment. Decorative business volume growth was healthy at 15-16% led by the delayed festive season and probable benefit of GST rate cut. Weak demand and inadequate pricing action in industrial segment affected margins. In Decorative segment, companies have undertaken price hikes twice during the quarter. 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 commissioned during this quarter. KNPL is also setting up a 52800KLPa 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 by end of 4QFY19. 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.

### Overseas subsidiaries can contribute meaningfully in FY20

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. Softening raw materials would aid overseas operations to contribute meaningfully in FY20.

### Outlook & Valuation

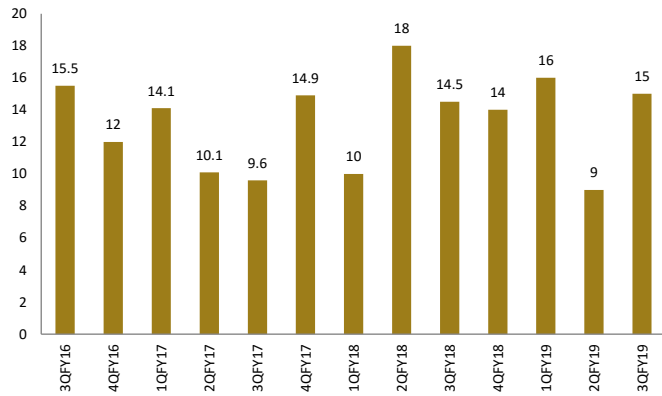
Post strong double digit volume growth in decorative over last few quarters, maintaining the similar trajectory will be a key. Management's commentary remained constructive as it expects the growth momentum to sustain over the near term led by growth in infrastructure, automobile and housing sectors. Margins however are under pressure as price hikes have not received fully. Over last decade KNPL has delivered 13%, 14% and 14% CAGR in revenue, EBITDA and PAT, respectively. We expect KNPL to deliver 15%, 11% and 11% CAGR growth over FY18-21E in revenue, EBITDA & PAT, respectively due to its rising focus on distribution network. Although price hikes in industrial segment would come with lag, which along with softening crude would improve margins, demand in automotive segment seen muted. Stock trades at 35.3x FY20E EPS of Rs12.3. Maintain **HOLD**.



**Exhibit 1: Quarterly Performance**

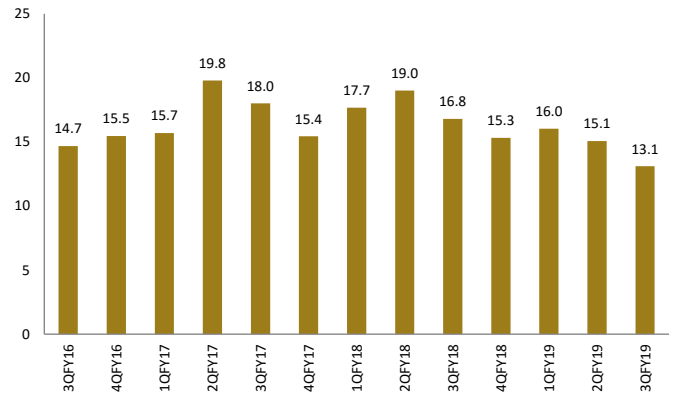
Particulars (₹ mn)	3QFY18	2QFY18	3QFY19	YoY Chg (%)
<b>Total Income</b>	<b>11,450</b>	<b>12,939</b>	<b>13,507</b>	<b>18.0</b>
Total RM	6,866	8,344	8,842	28.8
Gross Profit	4,585	4,595	4,664	1.7
Gross Margin (%)	40.0	35.5	34.5	-551bps
Employee Cost	579	631	677	17.0
% of sales	5.1	4.9	5.0	-4bps
Other Expenditure	2,084	2,014	2,218	6.4
% of sales	18.2	15.6	16.4	-178bps
<b>EBITDA</b>	<b>1,922</b>	<b>1,950</b>	<b>1,770</b>	<b>-7.9</b>
EBITDA Margin (%)	16.8	15.1	13.1	-369bps
Depreciation	194	231	235	21.4
Other Income	198	140	198	0.4
<b>EBIT</b>	<b>1,926</b>	<b>1,859</b>	<b>1,733</b>	<b>-10.0</b>
EBIT Margin (%)	16.8	14.4	12.8	-399bps
Interest	0	0	0	
PBT	1,926	1,859	1,733	-10.0
Total Tax	675	639	606	-10.2
Effective tax rate (%)	35.0	34.4	35.0	-6bps
Reported PAT	1,252	1,220	1,127	-9.9
<b>Adjusted PAT</b>	<b>1,252</b>	<b>1,220</b>	<b>1,127</b>	<b>-9.9</b>

**Exhibit 2: Strong volume growth continues**



Source: Company, Trust

**Exhibit 3: Pricing action needed in industrial biz**



Source: Company, Trust



## Financials – Consolidated

### P&L Statement

Y/E Mar (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net Sales</b>	<b>39,991</b>	<b>45,866</b>	<b>52,023</b>	<b>61,179</b>	<b>70,576</b>
Change (%)	7.0	14.7	13.4	17.6	15.4
Raw Materials	20711	24472	28613	34260	39523
Operating Expenses	11618	13115	14569	16908	19640
<b>EBITDA</b>	<b>7,662</b>	<b>8,278</b>	<b>8,841</b>	<b>10,011</b>	<b>11,414</b>
Change (%)	26.1	8.0	6.8	13.2	14.0
Margin (%)	19.2	18.0	17.0	16.4	16.2
Depreciation	685	746	794	838	882
Int. and Fin. Charges	0	0	0	0	0
Other Income	982	724	797	876	964
<b>Profit before Taxes</b>	<b>7,959</b>	<b>8,256</b>	<b>8,844</b>	<b>10,049</b>	<b>11,496</b>
Tax	2,535	2,700	3,033	3,447	3,943
Tax Rate (%)	31.8	32.7	34.3	34.3	34.3
<b>PBT Before Minority</b>	<b>5,424</b>	<b>5,556</b>	<b>5,810</b>	<b>6,602</b>	<b>7,553</b>
<b>Adjusted PAT</b>	<b>5,424</b>	<b>5,556</b>	<b>5,810</b>	<b>6,602</b>	<b>7,553</b>
Change (%)	38.3	2.4	4.6	13.6	14.4
Margin (%)	13.6	12.1	11.2	10.8	10.7
Exceptional/Prior Period inc	0	0	0	0	0
<b>Reported PAT</b>	<b>5,424</b>	<b>5,556</b>	<b>5,810</b>	<b>6,602</b>	<b>7,553</b>

### Balance Sheet

Y/E Mar (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	539	539	539	539	539
Total Reserves	27,514	30,712	34,906	39,622	44,911
<b>Net Worth</b>	<b>28,053</b>	<b>31,251</b>	<b>35,445</b>	<b>40,161</b>	<b>45,450</b>
Long Term Borrowings	183	97	77	57	37
Deferred Tax Liability	792	804	804	804	804
Other LT Liabilities & provisions	0	0	0	0	0
Trade Payables	5,502	6,836	7,633	8,976	10,355
Other Current Liabilities	1,174	1,442	1,442	1,442	1,442
Short Term Borrowings	0	0	0	0	0
<b>Total Liabilities</b>	<b>35,974</b>	<b>40,679</b>	<b>45,649</b>	<b>51,689</b>	<b>58,337</b>
<b>Net Fixed Assets</b>	<b>9,464</b>	<b>10,064</b>	<b>10,370</b>	<b>10,532</b>	<b>10,650</b>
Capital WIP	1,421	3,431	4,331	5,331	6,331
Non current Investments	222	260	260	260	260
Long term loans & advances	1,320	1,618	1,618	1,618	1,618
Inventory	6,913	8,058	10,690	11,733	13,671
Account Receivables	5,717	6,757	7,545	8,873	10,236
Cash and Bank Balance	2,497	3,609	3,954	6,460	8,690
Short term loan & advances	2,966	1,523	1,523	1,523	1,523
Currents Investments	5,308	5,200	5,200	5,200	5,200
<b>Total Assets</b>	<b>35,974</b>	<b>40,679</b>	<b>45,649</b>	<b>51,689</b>	<b>58,337</b>

**Cash Flow**

Cash Flow Statement (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>PBT before EO items</b>	7,959	8,256	8,844	10,049	11,496
Add : Depreciation	685	746	794	838	882
Interest	0	0	0	0	0
Less : Direct taxes paid	2,535	2,700	3,033	3,447	3,943
(Inc)/Dec in WC	4,605	-528	2,623	1,028	1,922
<b>CF from Operations</b>	<b>1,504</b>	<b>6,830</b>	<b>3,982</b>	<b>6,413</b>	<b>6,513</b>
Extraordinary	666	12	0	0	0
<b>CF from Op after extra</b>	<b>2,170</b>	<b>6,842</b>	<b>3,982</b>	<b>6,413</b>	<b>6,513</b>
(Incr)/Decr in FA	1,885	3,356	2,000	2,000	2,000
(Pur)/Sale of Investments	63	-70	0	0	0
<b>CF from Invest.</b>	<b>-1,948</b>	<b>-3,286</b>	<b>-2,000</b>	<b>-2,000</b>	<b>-2,000</b>
Inc/(Dec) in equity	-783	-957	0	0	0
Inc/(Dec) in debt	-105	-86	-20	-20	-20
Dividend paid	1,617	1,401	1,617	1,886	2,263
<b>CF from fin. activity</b>	<b>-2,504</b>	<b>-2,444</b>	<b>-1,637</b>	<b>-1,906</b>	<b>-2,283</b>
<b>Incr/Decr of Cash</b>	<b>-2,282.0</b>	<b>1,112.2</b>	<b>344.8</b>	<b>2,506.5</b>	<b>2,229.5</b>
Add: Opening Balance	4,779	2,497	3,609	3,954	6,460
<b>Closing Balance</b>	<b>2,497</b>	<b>3,609</b>	<b>3,954</b>	<b>6,460</b>	<b>8,690</b>

**Key Ratios**

Y/E Mar (%)	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales	51.8	53.4	55.0	56.0	56.0
Manpower Cost/Sales	19.3	20.8	23.2	26.3	29.9
Operating & Other Cost/Sales	24.5	24.0	23.4	23.1	23.3
Revenue Growth	7.0	14.7	13.4	17.6	15.4
EBITDA Margins	19.2	18.0	17.0	16.4	16.2
Net Income Margins	13.6	12.1	11.2	10.8	10.7
ROCE	24.0	23.4	22.2	22.4	22.8
ROE	19.3	17.8	16.4	16.4	16.6

**Valuation Parameters**

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹)	10.1	10.3	10.8	12.3	14.0
P/E (x)	37.7	41.9	40.1	35.3	30.8
BV (₹)	52.1	58.0	65.8	74.5	84.3
P/BV (x)	7.3	7.4	6.6	5.8	5.1
EV/EBITDA (x)	26.3	27.7	25.9	22.6	19.6
Fixed assets turnover ratio (x)	4.2	4.6	5.0	5.8	6.6
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	5.0	5.0	4.4	3.7	3.2

### Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Sales</b>				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
<b>Research Team</b>				
Binyam Taddese	Economist	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Research Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Research Analyst	Commodities, Consumer & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

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Hold                             15% to -15%

Sell                              Less than -15%

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