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Initiating Coverage

Kansai Nerolac Paints Ltd.

30-April-2021

RETAIL RESEARCH

Kansai Nerolac Paints Ltd.

Industry	LTP	Base Case Fair Value	Bull Case Fair Value	Recommendation	Time Horizon
Paints	556	599	645	Buy on dips in 531-537 band and add further in 472-478 band	2 quarters

HDFC Scrip Code	KANNEREQNR
BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL IN
CMP Apr 30, 2021	556
Equity Capital (cr)	54
Face Value (Rs)	1
Eq- Share O/S(cr)	54
Market Cap (Rscr)	29,964
Book Value (Rs)	67.1
Avg.52 Wk Volume	312347
52 Week High	679
52 Week Low	333

Share holding Pattern % (Mar 31, 2021)	
Promoters	74.99
Institutions	16.59
Non Institutions	8.42
Total	100.0

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Our Take:

Kansai Nerolac Paints Ltd (KNPL) is a 74.99% subsidiary of Kansai Paints Co. Ltd., Japan. The parent is one of the world's top ten paint companies with manufacturing facilities in over 43 countries. KNPL is the largest industrial paint and third largest decorative paint company in India. While steadfastly strengthening its position in these traditional markets, it continues to venture 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. These ventures have helped it expand its product portfolio and offerings. Its manufacturing footprint spans six plants, all of which are strategically located near key original equipment manufacturers (OEMs), thus giving it a strong competitive edge. Through technology, product innovation and well-established distribution, KNPL has strengthened its core and established itself as a strong consumer brand; it features in India's Top-40 brands. The company has been expanding its horizons by entering new market segments and geographies. Through acquisitions and joint ventures, it also operates internationally in Sri Lanka, Nepal, and Bangladesh.

Valuations and recommendation

The demand for paints across India is at a multi-year high, some of which can be attributed to pent-up demand as the result of lockdown impositions. Given the fact that the fundamentals of the paint business continue to be buoyant and strong, we believe the growth tailwinds are quite strong for the industry and large players like KNPL are better placed owing to their wide and unique distribution model, constant focus on technological upgrades (premiumization,) and strong brand presence. Decorative paints account for ~66% of company's revenue while remaining is accounted for by industrial coating. KNPL is expected to be a major beneficiary of cyclical recovery and pick-up in industrial demand since it is the market leader in automotive paints (with 60% market share) and enjoys 40% market share in industrial paints. While all-round demand recovery is heartening, raw material inflation could weigh on profitability. However, the ground research suggests that the companies have taken price hikes across segments. On industrial paints front, KNPL has raised prices for a few clients and it is already engaging with auto customers for negotiation. Price hikes, along with cost rationalization, will stabilize the gross margins and better operating leverage on account of higher utilizations will enhance the operating margins, going ahead. **We recommend a buy on the stock at Rs. 531-537 band and add further on dips to Rs.472-478 band for a base case target of Rs. 599 (46xFY23E EPS) and a bull case target of Rs. 645 (49.5xFY23E EPS).**

Kansai Nerolac Paints Ltd.

Financial Summary (Rs Cr)

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY20	FY21E	FY22E	FY23E
Net Revenues	1593	1332	19.57	1383	15.14	5280	4844	5724	6471
EBITDA	304	198	53.97	269	13.33	804	839	947	1090
APAT	204	115	77.84	168	21.17	516	528	610	702
Diluted EPS (Rs)	3.80	2.10	80.95	3.10	22.58	9.6	9.8	11.3	13.0
P/E (x)						58.1	56.8	49.1	42.7
EV/EBITDA						38.7	36.4	32.1	28.0
RoE-%						14.4	13.4	14.1	14.6

(Source: Company, HDFC sec)

Q3FY21 result update

Revenue grew ~20% YoY to Rs. 1,593 Cr. Decorative business grew 23/18.6% in volume/value terms and industrial business grew by 17% as pent-up demand timing, strong festive season, share gains from unorganized sector, recovery in metro/tier-1 catchments, and strong auto sales underpinned growth. Within non-auto Industrials, powder coatings continues to do well.

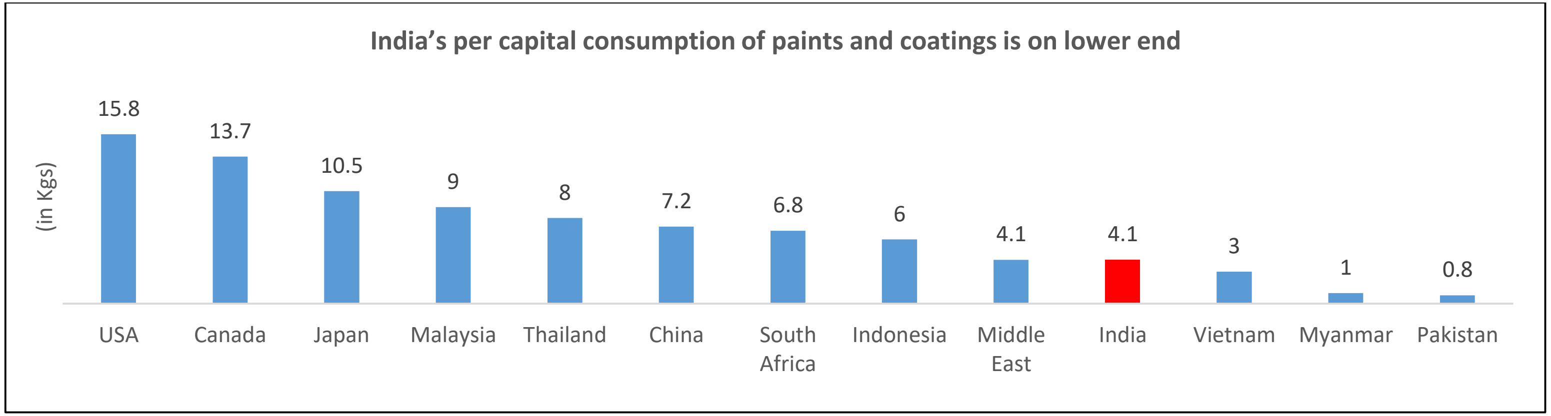
On the international front, Nepal clocked strong double-digit growth (led by pent-up demand) post market re-opening in Dec-20. Sri Lanka remains impacted, though it is witnessing signs of recovery. Bangladesh sustained its growth momentum (high double-digit growth YoY). Among subsidiaries, Marpol and Perma grew in high double digits.

GM expansion lagged that of Asian Paint's (93bp YoY to 39.2% vs. APNT +207bp) as mix continues to normalise in favour of lower margin industrials business. EBITDA Margin expanded 430bp to 19.7% as company continued to keep a tight lease on costs. PAT grew 78% to Rs. 204 Cr.

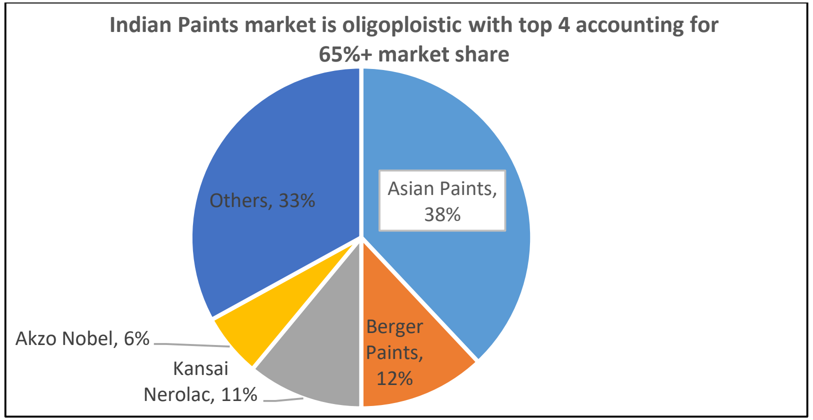
Long-term triggers

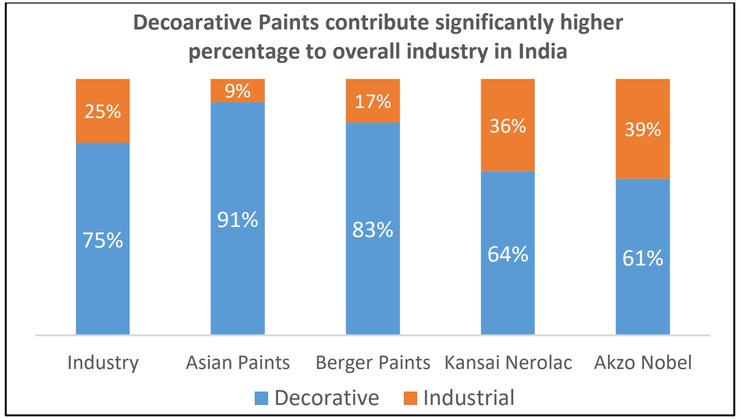
Indian paints industry – 'Colourful Past, Bright Future'

The Indian paint industry has historically grown in double digits and is poised to grow at a healthy rate in the medium to long run. There is a strong correlation between the Indian paint industry and the country's GDP as historically paint industry volume growth has a GDP multiplier of 1.5-2X. The industry can be bifurcated into decorative paints and industrial paints. The decorative paint category constitutes almost 75% of the overall market and includes multiple categories like exterior wall paints, interior wall paints, wood finishes and enamels, as well as ancillary products like primers, putties, etc. The industrial paint category constitutes the balance 25% of the paint market and includes a broad array of segments like automotive, marine, packaging, powder, protective and other general industrial coatings. The Big 4 of the paints industry i.e. Asian Paints (ANPT), Berger Paints (BRGR), Kansai Nerolac, and Akzo Nobel India (AKZO) account for 65%+ of the market and 75% of the decorative paints market. The industrial paints market is slightly more fragmented with these Big 4 accounting for 51% of it. The Indian paints industry has begun to look more like the FMCG industry where branding, distribution strength, and innovative use of technology have turned out to be the unequivocal factors in its development against the backdrop of ever-changing customer preferences. There have been advancements in the paints market both at the product technology and development levels, while the usage has seen some changes as well. These have led to better and more secure items, environment friendly paints, cheaper technology, and better aesthetics. The past few years have seen a noteworthy change in the type of products and services available, given the extent of development among the paint makers and the evolving preferences towards mid and premium segment items. The entire market landscape of decorative and industrial paint categories has seen huge innovation. The evolving paints market is also witnessing increasing interest for premium products, as buyers have become more aesthetically aware, and have the means to opt for higher value products, even at premium prices.



Kansai Nerolac Paints Ltd.





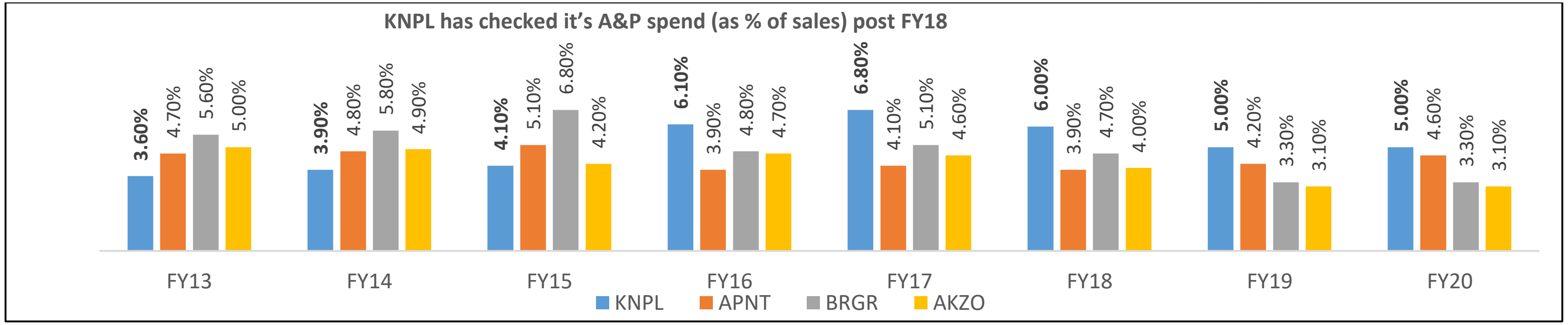
Some of the reasons the industry has done well are increasing urbanization, increasing disposable incomes, and shortening repainting cycles. Repainting cycles have reduced to 4-5 years, versus 8-10 years earlier, for interior paints and 7-8 years, versus 12-16 years earlier, for exterior paints. There has been a strong uptrend in the demand from Tier 2 and Tier 3 cities and rural India, which is likely to continue and cushion the volume growth. The per capita consumption of paints in India is ~ 4 kg, much lower than that in the other countries. This will be one of the important drivers of paint companies in India. The implementation of GST in 2017 and reduction in tax rate from 28% to 18% as well as focus on low end emulsion by top companies have shrunk the unorganized industry. The industry is expected to post volume growth of 10% in the near future, led by strong repainting demand, construction activity, and industrial and infrastructure development.

Scailing higher in decorative paints

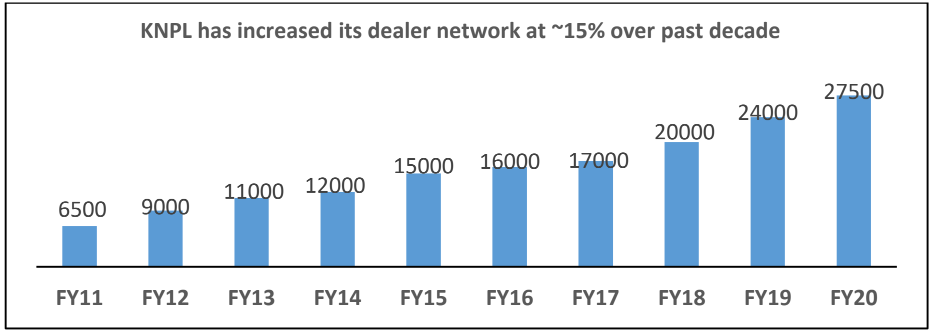
KNPL managed to outgrow its bigger rivals (in decorative coats) Asian Paints and Berger Paints over FY16-19, primarily led by:

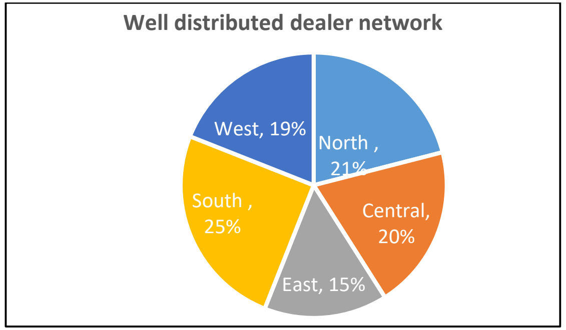
1. **Aggressive marketing push over FY16-18:** It stepped up its A&P spends in FY16- 18 (6-7% of sales in ad spends vs 3.5-4% historically and vs APNT/ BRGR’s 4%/5% respectively), translating into an 11/23% CAGR over FY15-20/FY15-18.. This ad-spend lever available to KNPL was partly due to the up-cycle in Auto industrials business during FY16-18 (10% CAGR over FY16-18). It has reversed since, with

the fortunes of the auto industry. A&P spends were cut to 6/5/5% of sales respectively over FY18-20 as management focused on safeguarding margins during the mentioned period.



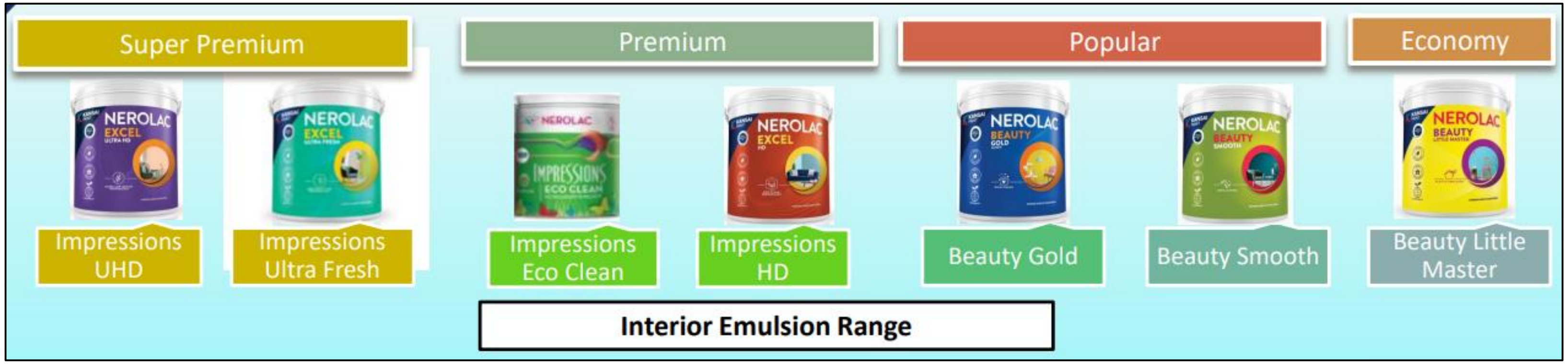
2. **Consistent push on dealer adds:** KNPL is estimated to have added dealers at a decadal ~15% CAGR and installed tinting machines at a CAGR of 11%. The dealership gap between KNPL and BRGR (#2 in Decorative) continues to reduce. It would be interesting to see if KNPL catches up on throughput per dealer too as the room for improvement lies maximum with the Top-3. Management intends to grow the dealer network by 8- 10% per annum.



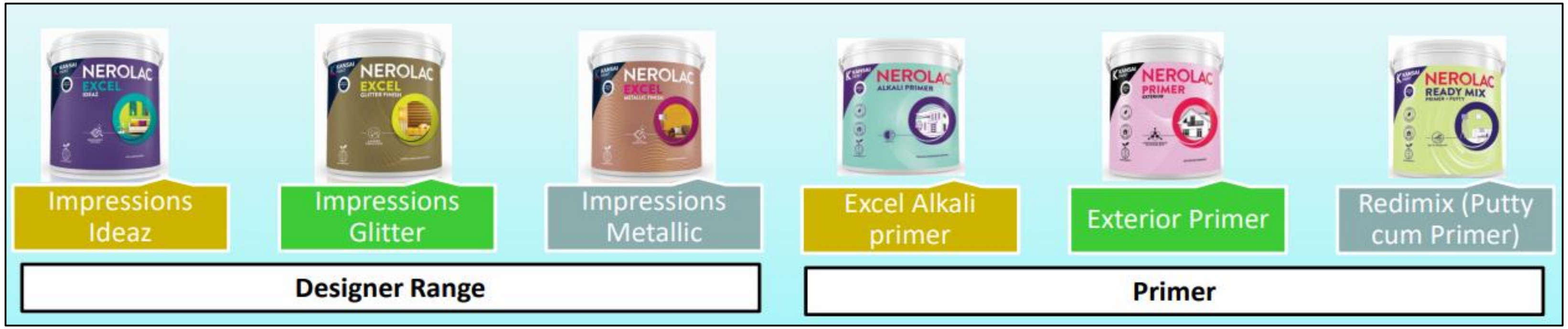


3. **Consistent new product additions across price points to fill white spaces:** Management has been proactive by sprucing up the economy emulsion portfolio and filling other product white spaces in the portfolio. For instance, it came up with 16 new offerings in FY20 and so far, in FY21, it has launched six new products.

KNPL offers focused offerings across segments and price points



KNPL's Ancillary Products Portfolio



As per the recent management commentary, demand continued to be strong in Tier 2/3/4 cities while it has picked up in metros and Tier 1 cities. The management is committed to expansion in its ancillary products portfolio including construction chemicals and waterproofing segments with demand firming up. The growth outlook for Q4 and coming quarters remains bullish.

Largest industrial paints player in India

The industrial paints account for ~25% of the overall paints industry, which is way lower than the developed economies (52% - US, 52% - Europe, 60% - China, 70% - South Korea). The Automobile industry is the largest component of industrial paints industry, accounting for 40%. Non-automobile paints include protective coatings (used in infrastructure, oil and gas, construction etc.), marine coating (used in ships, trawlers, supply vessels, etc.) and powder coatings (used in appliances, pharmaceuticals etc.). The industrial coatings segment in India has not been able to match the growth figures of decorative coating. Over the years, the decorative paint segment has grown at a CAGR of 11.4% against the industrial segment, which has grown at a CAGR of 7.9%. Industrial paint's lower contribution in India's overall paint market is due to lower industrial and infrastructure development compared to other matured countries and developing countries like China, and higher technical know-how required in the industrial paint segment, which in turn leads to negligible involvement of unorganized players. The industrial paint segment is highly dependent on business cycles and economic conditions. The automotive coatings segment - the biggest contributor to the overall volumes in this segment has been facing challenging times due to the slowdown faced by the auto industry over the past two years and this has affected overall industrial paints volume.

1. **Dominant player in auto OEM industry:** In the Auto OEM industry, KNPL is the dominant player with 60% market share. This segment accounts for ~70% of KNPL's industrial business. The company enjoys healthy relationships with major automotive manufacturers (which typically are subsidiaries of large global auto manufacturers), given the parent's (Kansai Paints Japan) relationship with major global automotive companies such as Suzuki, Honda, and Toyota. Further, industrial applications require technical R&D and support to introduce products that meet changing client requirements. This is applicable even in the auto industry where customers are looking for products that improve lustre while reducing timelines for the paint application process. These innovative products also help maintain a healthy margin profile and provide competitive moats.

2. **Subtly beefing up its non-auto portfolio:** Given the cyclicality of its auto industrial vertical, KNPL is subtly reducing its structural exposure to its non-auto industrial coatings business such as powder coatings, auto refinishes, general industrial, protective and coil coatings, which now account for ~30% of KNPL's industrial revenues.

3. **Auto refinish coats (18% of the industrial coatings market):** KNPL has identified auto-refinish as a key growth driver for its industrial vertical. It has been consistently gaining market share in the auto-refinish segment (6% market share within three years of launch) underpinned by (1) consistent new product launches and (2) enhancement of its retail and Body Shop network. Additionally, demand

in auto-refinish segment is more predictable/stable than the auto OEM business, which could help reduce the cyclicality in the overall industrial business.

4. **Performance coatings:** In this segment, the company caters to customers by supplying liquid paints and powder coatings. KNPL continues to be a dominant leader in the powder coating market (40% market share) and continues to gain ground in the liquid coating market by entering niche areas such as bridges and pipe coating (bagged metro and railway projects). The company also acquired Marpol for Rs 34 cr in FY19 (0.5x sales), which would help it consolidate its market leadership position in powder coatings. Marpol clocked revenue/PAT of Rs 59 cr/2.9 cr in FY20. Profitability has improved since its acquisition. EBITDA margin expanded 410bps to 9.7% in FY20. We expect KNPL's powder vertical to be tied in with the secular growth story in consumer durables in India.

5. **General industrial, coil and protective coatings** (**45% of Industrial Coatings market)**: These segments remain fragmented, courtesy the high share of the unorganized players. However, with consistent network, customer base and capacity augmentation, we expect KNPL to gain significant strength in this vertical over the medium to long term. New technology products developed recently include low bake coil coatings, uni-coats, and super durable coil coatings.

Industrial Coatings Portfolio

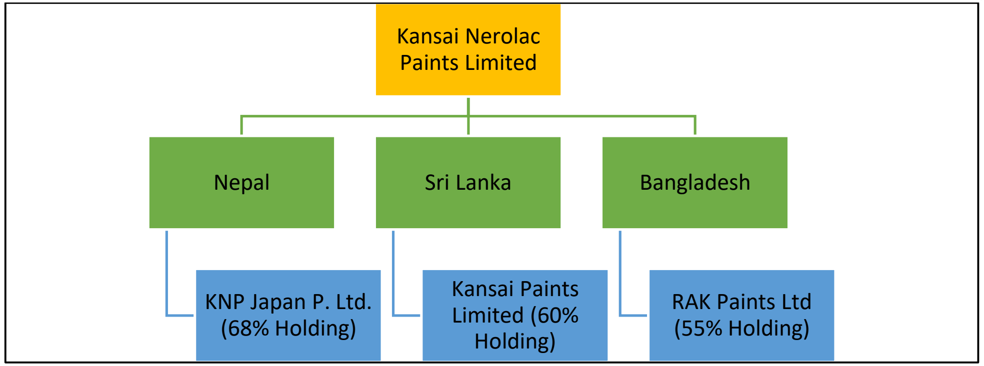
Industry	Applications	Offerings	Key Clients
Automotive	Passenger Vehicles, Commercial Vehicles, Tractors, Two Wheelers, Three Wheelers, Wheels and Auto Ancillaries.	AED, CED, ACED, Monocoats, clear coats, Direct to Metal paints, water based primers, TSA polyester, etc.	Maruti Suzuki, Eicher, Hero, Yamaha, Mahindra, TVS, Mercedes Benz, Nissan, Volkswagen, Mitsubishi, etc
Powder Coatings	Refrigerators, Washing Machines, Air Conditioner, Light Fixtures, Electrical, Auto Components, Pipes, Rebar Steel, Architectural.	Epoxy Powder, Rebar coatings, pipe coating, super durable powders, etc	Auto companies, Samsung, Godrej, L&T, Voltas, Daikin, LG, Whirpool, Phillips, Havells, Siemens, etc.
Performance Coatings Liquid (General Industrial + High Performance Coating)	Petroleum, Metal Industries, Chemicals and Fertiliser, Infrastructure, Cement Industry, Railways, Pipes Pre-Coated Steel, Bridges, Drums and Barrels, Cylinders,	Epoxy coatings, pipe coatings, floor coating, coil coatings, etc.	RIL, L&T, ONGC, BPCL, Adani, BHEL, Suzlon, Thermax, Ultratech, Ambuja, ACC, JSW,

	Electricals, Helmet, Pre-engineered Bulidings, Construction Equipments		TATA Steel, SAIL, Nirma, RCF, etc.
Auto Refinish	After Market Repainting and Touch-up for Passenger Vehicles, Commercial Vehicles, Two Wheelers, Three Wheelers, Bus Body, Auto Parts and Furniture.	Polyurethane Paints, Nitrocellulose, Alkyd Based, etc.	OEMs, Body shops and other general market

As per recent management commentary, the automotive segment has seen decent growth in the past couple of quarters, led by passenger vehicles and tractors. The company's non-auto industrial segment has witnessed good demand. All of KNPL's recent acquisitions including Marpol, Perma and Nerofix have witnessed high double-digit growth in the previous quarter. The company, being the market leader in powder coating, is the biggest beneficiary of changing consumer preferences towards using powder coating instead of liquid coating. The management claims to have gained decent market share in automotive and powder coating segments in the previous quarter.

International business on growth path

KNPL operates in Nepal, Bangladesh, and Sri Lanka through its subsidiaries. The international operations contribute ~5% to the company's revenues. In Nepal, after a long lockdown, markets opened in Q3 and the company recorded strong double-digit growth on the back of pent-up demand in the market, while it continued its good run in Bangladesh and recorded high double-digit growth, like it did in Q2. Sri Lanka continues to remain impacted by COVID-19; however, of late, it has shown signs of revival. The company recently announced its plan to invest TK 16 cr in its Bangladesh subsidiary to expand its business and grab a bigger piece of the growing South Asian pie.



Short term triggers

Cyclical recovery to lead rerating

With KNPL is the market leader in industrial paints, which contributes ~36% to its topline, it is a pure play on auto and industrials recovery. Robust vehicles sales by auto companies, including its largest client Maruti Suzuki Ltd, in the past couple of quarters have put the demand for industrial paints on track. Besides, the consumer durables sector has witnessed an uptick in demand, which will lead the demand for powder coating (KNPL has technical license agreement with Canada-based Protech Chemicals, the world's number one powder coating technology), in which KNPL again is the market leader. The path-breaking PLI scheme launched by the government will boost the local production of consumer electronics, auto components, etc. and KNPL being the leader in industrial paints is likely to be one of the biggest beneficiaries.

Cost control measures to help expand margins

KNPL's industrial paint sales are linked to the auto cycle. With the auto sector having faced a slowdown from FY18-20, sales growth remained impacted. With pick-up in auto sales and, subsequently, in sales of industrial paints, we expect a steady growth over FY21-23. The decorative segment sales are likely to post double-digit growth in FY21 on the back of strong volume growth in H2FY21. KNPL's gross margin is lower than peers' on account of its higher exposure to the industrial segment, which entails relatively low margins. In FY20, gross margin went up on account of benign input costs and the share of decorative increased; we believe that margin will further rise in FY21 on account of lower input costs. As per the management commentary in Q3FY21 earnings concall, KNPL has undertaken price hikes across the portfolio in the decorative paints space and is in talks with some clients in industrial space for a price hike, besides increasing for others on account of inflationary trends in raw material prices. The management has also implemented aggressive fixed-cost-control measures, which it expects it will sustain, going forward. We believe KNPL's predisposition to control costs is likely to continue in FY22/FY23. Stabilized gross margins, better operating efficiency due to increased utilization, and effective cost control measures will support the company's operating margins, in our view.

Return ratios to improve over medium to longer term

Structurally, given the higher industrial salience, KNPL's cash conversion cycle is longer vs APNT/BRGR as receivables from industrial clients are typically longer vs that of dealers from decorative business. Both inventory/payable days have inched up/down respectively over FY16-20 (more pronounced over FY18-20). We suspect this may be due to the auto slowdown and new products filling in the channel. A similar trend was observed over FY13-14 (previous auto slowdown). Capital intensity in industrials is also nearly double that of decorative plants.

Lower margins, longer cash conversion cycle, and greater capital intensity (reflected in lower-than-APNT/BRGR fixed asset turns) for Industrials does weigh in on the company's structural return ratios. This is likely to improve at the margin level with recovery in industrial business and increase in decorative salience over the medium to long term.

Grasim's entry to impact KNPL the least

In January, Grasim Industries Ltd announced its entry in the paints sector. Grasim is said to be investing Rs. 5,000 cr over the next 3 years with the aim to become the second largest player in the paints industry. We believe that Grasim's entry will help increase the size of the pie, rather than just redistribute market share and drive formalization of the sector. As Grasim plans to generate 20% IRR, there shouldn't be any ungainly price wars. Paints, much like the FMCG sector, is a tough sector to enter into and, over the years, the top-3 players have more or less maintained their market share due investment in brands, distribution, and innovations. The notable point is that Grasim only plans to enter the decorative paints, while the industrial paints segment is likely to remain unaffected. KNPL being the market leader in industrial paints should be the least impacted amongst its peers.

Key risks:

Correlation between sales and the economy - The volume growth rate of the paint industry has been a multiplier of GDP growth and, thus, any slowdown in GDP growth will impact the sector's growth.

Sharp rise in input costs - Solvents, pigments, resins, latex, monomers, and titanium dioxide are the key raw materials for KNPL. Titanium dioxide is one of the key raw materials in paints. It is a pigment, which is used to impart whiteness, brightness, opacity (elimination of transparency), and UV protection, and it is largely imported. Approximately 70% of the input costs can be accounted for by crude derivations. The remaining ~30% of the input costs arise from non-crude (TiO2) forms. Therefore, any sharp increase in input costs could adversely impact the business.

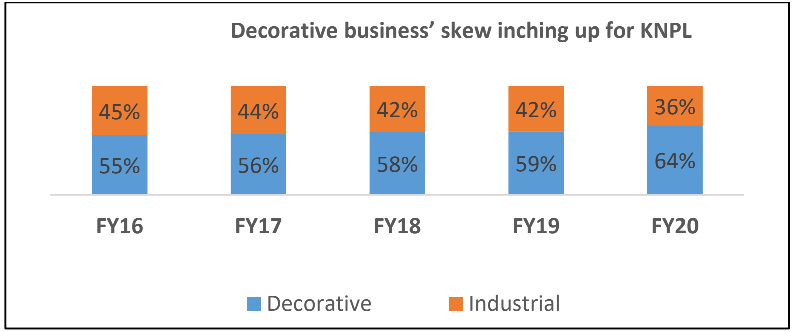
Rising heat in the industry – Kansai Nerolac operates in a highly competitive industry. Currently, it is oligopolistic in nature where the top-4 players (Asian Paints, Berger Paints, Kansai Nerolac and AkzoNobel India) account for 75% of the country's market. Other smaller players in the organized segment include Indigo Paints, Shalimar Paints, Nippon Paints, Kamdhenu Paints, Esdee Paints, etc., which have also been eyeing the fast-growing paints sector. The entry of JSW and Grasim and the unnecessary price wars by smaller players or new entrants to make inroads into the industry can affect the margins.

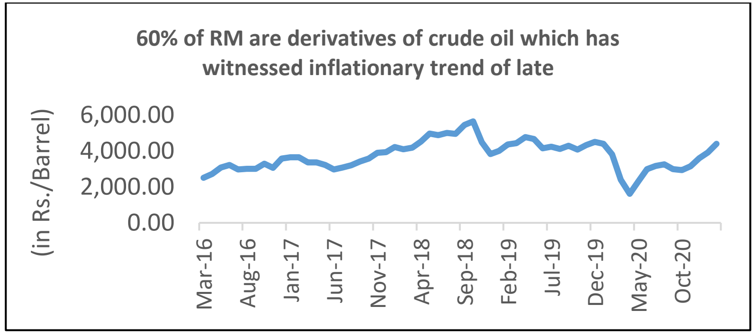
Finance risks originating out of currency fluctuations - The USD-INR exchange is an important component of the input costs. Hence, a depreciation of INR vis-à-vis the USD could affect the company's bottom line directly by the way of gross margins.

Disruption in the supply chain - In a year of high uncertainty in the macro environment and geopolitical relations, disruptions in the supply chain are an important risk to monitor. The non-availability of raw material could impact our estimates negatively.

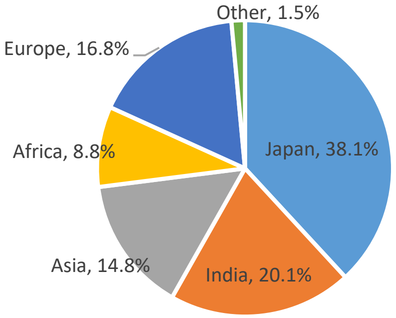
About the company

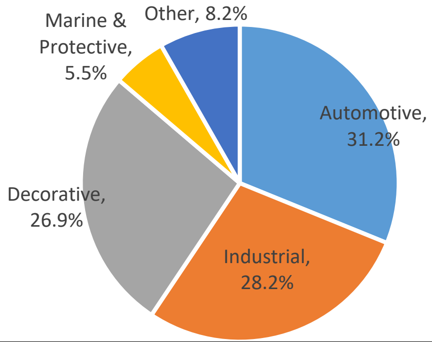
KNPL was incorporated in 1920 as Gahagan Paints and Varnish Company. Later, in 1930, three British companies were merged to form Lead Industries Group. In 1933, Lead Industries Group Ltd. acquired the entire share capital of Gahagan Paints and Goodlass Wall (India) Ltd. was born, which later became popular as Goodlass Nerolac Paints (Pvt.) Ltd. It came under the fold of Tata Forbes Group in 1976 as Forbes Gokak acquired the entire stake from Lead Industries. In 1986, Kansai Paints (Japan) acquired a 36% stake and entered a JV with the company. In 1999, Kansai Paints (Japan) acquired the entire stake of Forbes Gokak, following which KNPL became a subsidiary of the former. At present, KNPL is the largest industrial paint and third-largest decorative paint company of India, based in Mumbai. The company manufactures a diversified range of products, ranging from decorative paints coatings for homes, offices, hospitals, and hotels to sophisticated industrial coatings for most of the industries. It has six paint manufacturing plants with a capacity of 4,50,000 MT at 104 sales depots across India. The Nerolac-owned plants are at (1) Jainpur, Kanpur Dehat (Uttar Pradesh); (2) Bawal (Haryana); (3) Lote, Chiplun (Maharashtra); (4) Hosur (Tamil Nadu); (5) Sayakha (Gujarat); (6) Goindwal (Punjab); (7) Visakhapatnam (Andhra Pradesh). The company has manufacturing capacity of 5,50,000 MT across six plants in India. It has a strong distribution network with 27,500+ dealers. It also operates in other geographies through its subsidiaries: Nepal (KNP Japan), Sri Lanka (Kansai Paints) and Bangladesh (RAK Paints).





Kansai Nerolac Paints Ltd.





Peer comparision - Company wise capacities and distribution reach (as on FY20)

Particulars	Asian Paints	Berger Paints	Kansai Nerolac	Akzo Nobel India
Capacity (MMT)	1.73	0.64	0.52	0.2
Dealer Network	70,000	30,000	27,500	15,000
Tinting Machines	46,000	20,000	17,000	5500
Tinting Machine/Dealer	0.66	0.67	0.62	0.37

Note: Tiniting Machine/Dealer ratio gives an approximate penetration of tinting machines for each company

Peer Comparison: Financials

Company	M Cap (in Rs. Cr.)	Revenue (in Rs. Cr.)			EBITDA Margin (%)			PAT Margin (%)			RoE (%)		
		FY18	**FY19**	**FY20**	**FY18**	**FY19**	**FY20**	**FY18**	**FY19**	**FY20**	**FY18**	**FY19**	**FY20**
Asian Paints	247300	16825	19342	20211	19.01	18.22	20.59	12.5	11.2	13.4	26.3	24.1	27.6
Berger Paints	69442	5166	6062	6366	15.6	14.5	16.7	8.9	8.2	10.3	22.5	21.3	25.6
Kansai Nerolac	29964	4652	5424	5280	17.0	13.9	15.2	11.0	8.3	9.8	17.3	13.7	14.4
Akzo Nobel India	10201	2719	2918	2662	11.0	11.7	14.2	7.5	7.2	9.1	17.7	17.3	20.4

(Source: Company, HDFC sec)

RETAIL RESEARCH

Kansai Nerolac Paints Ltd.

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**5424**	**5280**	**4844**	**5724**	**6471**
Growth (%)	16.45	-2.66	-8.26	18.18	13.04
Operating Expenses	4672	4476	4005	4777	5381
EBITDA	**753**	**804**	**839**	**947**	**1090**
Growth (%)	**-5.12**	**6.90**	**4.34**	**12.82**	**15.08**
EBITDA Margin (%)	**13.87**	**15.24**	**17.33**	**16.54**	**16.84**
Depreciation	106	142	150	156	181
EBIT	**646**	**662**	**690**	**791**	**909**
Other Income	61	26	37	40	41
Interest expenses	10	21	22	16	12
PBT	697	667	705	815	938
Tax	249	151	178	205	236
APAT	**448**	**516**	**528**	**610**	**702**
Growth (%)	-12.86	15.22	2.34	15.58	15.01
EPS	**8.3**	**9.6**	**9.8**	**11.3**	**13.0**

Balance Sheet

As at March (in Rs. Cr.)	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	54	54	54	54	54
Reserves	3362	3706	4065	4503	4989
Shareholders' Funds	**3416**	**3760**	**4119**	**4557**	**5043**
Long Term Debt	4	23	21	14	8
Short Term Debt	104	155	110	84	59
Total Source of Funds	**3671**	**4132**	**4443**	**4849**	**5304**
APPLICATION OF FUNDS					
Net Block	1445	1754	1595	1709	2096
CWIP	316	169	169	169	169
Goodwill	20	20	20	20	20
Other Non-Current Assets	0	133	133	133	133
Total Non Current Assets	**1781**	**2075**	**1916**	**2030**	**2417**
Inventories	1111	1008	1022	1129	1259
Trade Receivables	756	787	770	863	957
Other Current Assets	577	515	472	542	578
Total Current Assets	**2444**	**2310**	**2264**	**2534**	**2794**
Trade Payables	693	595	597	643	722
Other Current Liab & Provisions	153	156	143	169	191
Total Current Liabilities	**847**	**752**	**740**	**812**	**913**
Net Current Assets	1597	1559	1523	1722	1881
Cash & Equivalents	96	192	698	791	700
Total Application of Funds	**3671**	**4132**	**4443**	**4849**	**5304**

(Source: Company, HDFC sec)

Kansai Nerolac Paints Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	696.8	667.0	705.4	815.3	937.7
Non-operating & EO items	-42.1	-12.4	-37.4	-40.1	-40.5
Interest Expenses	10.0	20.9	21.6	16.0	11.6
Depreciation	106.3	142.1	149.7	155.7	181.0
Working Capital Change	-360.3	-57.0	35.2	-198.5	-158.9
Tax Paid	-310.7	-165.5	-177.6	-205.2	-236.0
OPERATING CASH FLOW (a)	**99.9**	**595.1**	**697.0**	**543.3**	**694.9**
Capex	-279.9	9.6	-269.5	-568.3	-174.2
Free Cash Flow	-601.3	-279.9	9.6	-269.5	-568.3
Investments	348.2	-90.0	0.0	0.0	0.0
Non-operating income	341.6	-6.3	37.4	40.1	40.5
INVESTING CASH FLOW (b)	**88.5**	**-376.2**	**46.9**	**-229.4**	**-527.8**
Debt Issuance / (Repaid)	-44.0	44.8	-47.6	-32.3	-30.8
Interest Expenses	-10.0	-15.7	-21.6	-16.0	-11.6
FCFE	-555.3	344.4	637.4	225.4	84.1
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-168.9	-169.9	-169.0	-172.5	-215.6
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-222.9**	**-140.7**	**-238.2**	**-220.7**	**-258.0**
NET CASH FLOW (a+b+c)	**-34.5**	**78.2**	**505.7**	**93.1**	**-90.9**

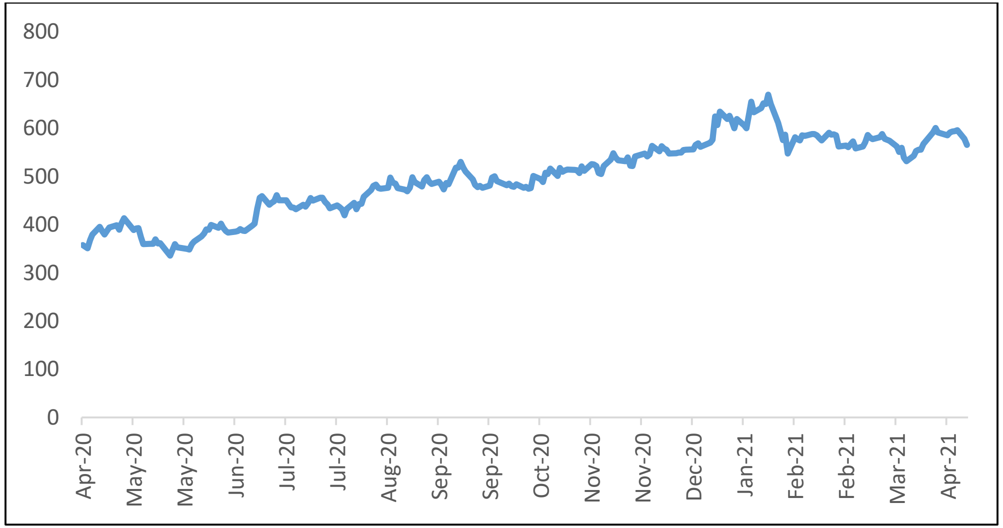
Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin (%)	13.9	15.2	17.3	16.5	16.8
EBIT Margin (%)	11.9	14.2	13.8	14.0	16.0
APAT Margin (%)	8.3	9.8	10.9	10.7	10.8
RoE (%)	13.7	14.4	13.4	14.1	14.6
RoCE (%)	13.1	13.6	12.7	13.4	14.0
Solvency Ratio					
Net Debt/EBITDA (x)	0.0	(0.0)	(0.7)	(0.7)	(0.6)
Net D/E	0.0	(0.0)	(0.1)	(0.2)	(0.1)
PER SHARE DATA					
EPS	8.3	9.6	9.8	11.3	13.0
CEPS	10.2	12.1	12.5	14.1	16.3
BV	61.0	67.1	73.6	81.4	90.1
Dividend	2.6	2.6	3.2	4.0	4.5
Cash Conversion Cycle (days)	107	108	115	110	106
Debtor days	51	54	58	55	54
Inventory days	75	70	77	72	71
Creditors days	47	41	45	41	41
VALUATION					
P/E	66.9	58.1	56.8	49.1	42.7
P/BV	9.1	8.3	7.6	6.8	6.2
EV/EBITDA	41.4	38.7	36.4	32.1	28.0
EV / Revenues	5.7	5.9	6.3	5.3	4.7
Dividend Yield (%)	0.5	0.5	0.6	0.7	0.8

(Source: Company, HDFC sec)

Kansai Nerolac Paints Ltd.

One Year Price Chart



(Source: Company, HDFC sec)

Disclosure:

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