

Kansai Nerolac Paints

Sensex: 17,194

CMP: INR 856

Target Price: INR 926



Paints

Kansai Nerolac Paints (KNP) reported Q3FY12 sales at INR 6,657mn, a YoY and QoQ growth of 18.79% and 8.06% respectively. The sales got impacted due to ongoing slowdown in auto industry which reduced the demand for auto paints. Higher raw material cost and company's inability to pass the same in industrial paints segment impacted EBIDTA margin which came at 12.11%, a decline of 16bps YoY and 274bps QoQ. PAT came at INR 527mn, a YoY growth of 26.67% in line with our expectation. We maintain HOLD on the stock.

Moderation in volume

KNP reported slightly lower than expected sales for Q3FY11 at INR 6,657mn on the back of moderation in volume growth in industrial paints, which accounts for ~50% of its revenues. Decorative paints continued to perform well on the back of good volume growth and higher realization. The blended volume growth for Q3FY12 has been ~6-7%, much lower than ~10% in Q2FY12 and ~15% in Q1FY12. The sales in industrial paints segment continued to suffer due to slowdown in auto industry. Volume of passenger vehicles registered a marginal growth of 1.45% in 9MFY12 dragged largely due to production cut on the back of labour issues at Maruti Suzuki.

The weighted average price hike taken by the company is ~8-10% & 2-3% in decorative and industrial paints segment respectively 9MFY12. Going forward, although we expect some improvement in volume growth (on back of normalization in production in Maruti Suzuki) but lower growth in realization would reduce the overall growth in revenues for FY13.

EBIDTA margin came better than expected

EBIDTA margins at 12.11% (-16bps YoY) and 13.70% (-72bps YoY) in Q3FY12 & 9MFY12 respectively, declined marginally (lower than our expectation) due to efficient management of raw material procurement and change in formulation by the company. Further, with expected moderation in RM cost inflation in FY13 on the back of higher base, we expect margins to inch up.

Planned expansion on progress

Company's planned expansion (at Hosur) got delayed by 9-10 months than originally planned. Company will commence operations at its Hosur plant in Aug-Sep 2012. Other minor expansions at Bawal and Jainpur plant are expected to be completed by end of FY12.

Change in Estimates

Going forward, we have revised our FY12 and FY13 sales projections downwards on the back of moderation in volume and realization led growth. However, with plateauing of RM cost in last 2-3 months, we expect RM inflation to ebb resulting in improvement in EBIDTA margin. Further, delay in planned expansion resulted in lower depreciation expense, than earlier expected, and thereby aiding the profitability.

Change in Estimates	FY12E	Change from previous	FY13E	Change from previous
Revenue (INR mn)	25,613	-0.54%	29,719	-2.62%
EBIDTA Margins	13.34%	+9bps	13.91%	+3bps
Adj. EPS (INR)	40.51	4.47%	46.48	0.02%

Source: Company, SPA Research

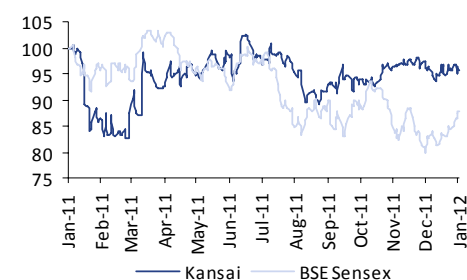
Valuations

KNP is the market leader in industrial paints segment with market share of ~42% (~60% in auto paints). Company's sales largely got impacted due to production issues at Maruti Suzuki which accounts for ~45% of passenger car volumes in India. However, with normalization of production at the plant, we expect volume in industrial paints segment to be better in FY13 over FY12. At CMP of INR 836, stock is trading at 21.1x FY12E EPS of INR 40.51.

We maintain our target price at INR 926 and recommend HOLD.

Shareholding (%)	Dec-11
Promoters	69.27
FII's	6.24
DIIS	4.74
Others	19.75

Relative Price Performance



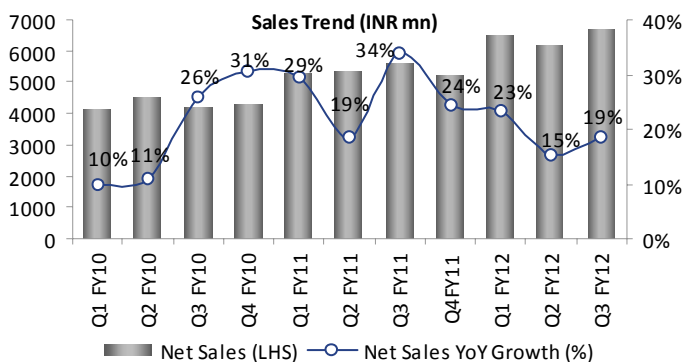
Key Data	
BSE Code	500165
NSE Code	KANSAINER
Bloomberg Code	KNPL IN
Reuters Code	KANE.BO
Shares Outstanding (mn)	53.9
Face Value	10
Mcap (INR bn)	46.1
52 Week H/L	1,055/720
2W Avg. Qty, BSE	1,668
Beta 1 yr. Nifty	0.19

(INR mn)	FY10	FY11	FY12E	FY13E
Net Sales	17,074	21,399	25,613	29,719
Growth (%)	24.12%	25.33%	19.69%	16.03%
EBIDTAM (%)	15.50%	13.63%	13.34%	13.91%
Adj. PAT	1,621	1,853	2,183	2,505
Growth (%)	69.89%	14.30%	17.83%	14.72%
Adj. PATM (%)	9.50%	8.66%	8.52%	8.43%
Adj. EPS (INR)	30.08	34.38	40.51	46.48
P/E (x)	21.46	25.25	21.13	18.42
EV/EBIDTA	13.56	16.33	13.78	11.39
Net Debt/Equity	(0.43)	(0.36)	(0.27)	(0.17)
RoACE (%)	20.04%	20.00%	20.78%	20.54%
RoANW (%)	22.72%	21.94%	22.54%	22.23%

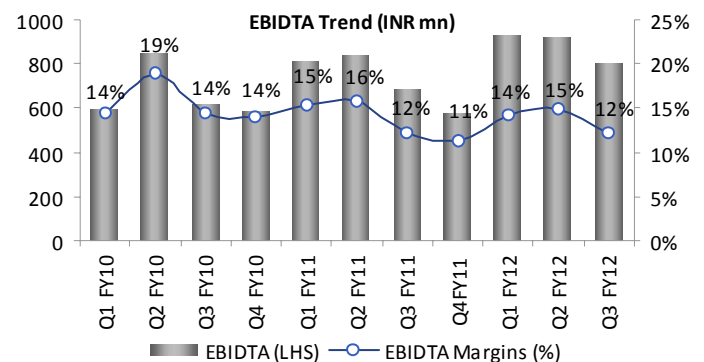
Quarterly Consolidated Financials

Particulars (INR mn)	Q3FY12	Q3FY11	YoY (%)	Q3FY12	QoQ (%)	9MFY12	9MFY11	YoY (%)
Total Income	6,657	5,604	18.79%	6,161	8.06%	19,338	16,203	19.35%
COGS	4,462	3,718	20.01%	4,018	11.04%	12,757	10,513	21.34%
Gross Profit	2,195	1,886	16.40%	2,142	2.47%	6,581	5,690	15.66%
<i>Gross Profit Margins %</i>	<i>32.97%</i>	<i>33.65%</i>	<i>-68bps</i>	<i>34.77%</i>	<i>-180bps</i>	<i>34.03%</i>	<i>35.12%</i>	<i>-108bps</i>
Employees' Cost	276	236	17.28%	268	3.02%	798	674	18.37%
Other Expenditure	1,113	963	15.58%	960	15.99%	3,135	2,680	16.97%
<i>as a % of sales</i>	<i>16.72%</i>	<i>17.18%</i>	<i>-46bps</i>	<i>15.58%</i>	<i>+114bps</i>	<i>16.21%</i>	<i>16.54%</i>	<i>-33bps</i>
EBIDTA	806	688	17.24%	915	-11.87%	2,649	2,336	13.38%
<i>EBIDTA Margins %</i>	<i>12.11%</i>	<i>12.27%</i>	<i>-16bps</i>	<i>14.85%</i>	<i>-274bps</i>	<i>13.70%</i>	<i>14.42%</i>	<i>-72bps</i>
Depreciation	145	128	13.06%	136	6.48%	401	362	10.79%
EBIT (excl. Other income)	661	560	18.19%	779	-15.07%	2,248	1,975	13.85%
Other Income	75	43	72.52%	29	154.95%	161	142	13.47%
EBIT	736	603	22.09%	808	-8.91%	2,409	2,116	13.83%
Interest	2	2	-16.67%	2	0.00%	7	8	-13.33%
EBT	734	601	22.25%	806	-8.93%	2,403	2,109	13.92%
Tax Expense (Total)	207	185	12.30%	235	-11.79%	692	638	8.56%
Net Profit	527	416	26.67%	571	-7.8%	1,710	1,471	16.25%
<i>Net Profit Margins %</i>	<i>7.91%</i>	<i>7.42%</i>	<i>+49bps</i>	<i>9.27%</i>	<i>-136bps</i>	<i>8.84%</i>	<i>9.08%</i>	<i>-24bps</i>
EPS	9.78	7.72	26.67%	10.60	-7.76%	31.73	27.30	16.25%

Source: Company, SPA Research



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Source: Company, SPA Research

Financials

Income statement

Year End March (INR mn)	FY10	FY11	FY12E	FY13E
Net Sales	17,074	21,399	25,613	29,719
Growth (%)	24.12%	25.33%	19.69%	16.03%
Cost of Goods Sold	10,718	14,003	16,917	19,425
Employee Cost	750	916	1,078	1,263
Other Operating Expenses	2,958	3,563	4,202	4,897
Total Operating Expenses	14,427	18,482	22,196	25,585
EBIDTA (excl. OI)	2,647	2,917	3,417	4,134
EBIDTA Margin (%)	15.50%	13.63%	13.34%	13.91%
Depreciation/Amortization	443	494	556	724
EBIT	2,205	2,423	2,862	3,410
Interest Expense	12	8	9	8
Other Income (OI)	194	223	216	169
Exceptionals	-	254	-	-
EBT	2,386	2,891	3,069	3,570
Tax Expenses	731	832	886	1,065
PAT	1,655	2,060	2,183	2,505
Adjustment to PAT	(34)	(207)	-	-
APAT	1,621	1,853	2,183	2,505
Growth (%)	69.89%	14.30%	17.83%	14.72%
APAT Margin (%)	9.50%	8.66%	8.52%	8.43%

Key Ratios

Year End March	FY10	FY11E	FY12E	FY13E
Per Share Data (INR)				
Reported EPS	30.71	38.22	40.51	46.48
Adj. EPS	30.08	34.38	40.51	46.48
Growth (%)	69.89%	14.30%	17.83%	14.72%
DPS	7.50	10.00	10.00	12.00
BVPS	143.40	170.00	189.45	228.66
Return Ratios (%)				
RoACE	20.04%	20.00%	20.78%	20.54%
RoANW	22.72%	21.94%	22.54%	22.23%
RoIC	24.77%	23.98%	23.83%	24.53%
Liquidity Ratios				
Net Debt/Equity	(0.43)	(0.36)	(0.27)	(0.17)
Interest Coverage Ratio	183.73	288.44	336.66	409.76
Current Ratio	1.41	1.49	1.46	1.51
Efficiency Ratios				
Asset Turnover Ratio	1.45	1.56	1.62	1.62
Inventory Days	71	78	81	79
Debtor Days	47	42	42	45
Payable Days	89	84	86	87
Valuation Ratios				
P/E (x)	21.46	25.25	21.13	18.42
P/BV (x)	4.50	5.11	4.52	3.74
Dividend Yield (%)	1.16%	1.15%	1.17%	1.40%
EV/Net Sales (x)	1.82	1.91	1.58	1.36
EV/EBIDTA (x)	13.56	16.33	13.78	11.39

Balance Sheet

Year End March (INR mn)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Share Capital	269	539	539	539
Reserves and Surplus	7,459	8,623	9,671	11,784
Total Networth	7,728	9,162	10,210	12,323
Total Debt	1,100	825	954	959
Total	8,828	9,987	11,163	13,282
Application of Funds				
Net Block	2,893	2,782	3,453	5,939
CWIP	164	1,036	1,710	1,500
Investments	4,015	3,718	3,168	2,466
Current Assets	5,620	7,043	8,432	9,676
Current Liabilities	3,980	4,727	5,775	6,390
Net Current Assets	1,640	2,316	2,657	3,287
Deferred Tax Asset (Net)	115	134	172	248
Total	8,828	9,987	11,163	13,282

Cash Flow

Year End March (INR mn)	FY10	FY11	FY12E	FY13E
EBT	2,386	2,891	3,069	3,570
Less: Other Income/Exceptionals	194	477	216	169
Add: Depreciation	443	494	556	724
Add: Interest Paid	12	8	9	8
Taxes Paid	(770)	(796)	(886)	(1,065)
Change in Working Capital	(366)	(822)	(831)	(448)
Others	(6)	7	6	3
Cash Flows from Operations (a)	1,505	1,306	1,707	2,623
Capital Expenditure	(757)	(1,268)	(1,900)	(3,000)
Asset Sales	0	1	-	-
Change in Investment	(1,071)	297	550	702
Others	199	405	302	353
Cash Flows from Investments (b)	(1,629)	(565)	(1,048)	(1,944)
Change in Equity	-	-	-	-
Debt Raised/(Repaid)	164	(275)	129	6
Dividend paid (including tax)	(378)	(471)	(631)	(631)
Interest Paid	(12)	(8)	(9)	(8)
Cash Flows from Financing (c)	(227)	(755)	(510)	(633)
Net Change in Cash (a+b+c)	(351)	(14)	149	46
Opening Cash	762	411	397	546
Closing Cash	411	397	546	591

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2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

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