

Savings in other costs offset gross margin pressure...

Kansai's Q4FY21 volume growth at ~31% YoY along with cumulative price hikes of ~3% YoY was better than our estimate. Strong topline growth at 35% was largely on account demand revival and on a favourable base. However, gross margin were down ~410 bps YoY due to a delay in price hikes in the industrial paint and higher raw material cost. On the positive side, EBITDA margin was up 235 bps YoY to 15.3%, led by saving in other costs. Key conference call takeaways: 1) Challenging demand condition in the near term due to lockdown, 2) more price hikes in future to offset inflationary pressure, 3) continuous focus on cost saving measure, 4) plans of various new launches and market share gain in both decorative & industrial segments, 5) initiated technology tie-ups with overseas group companies (Europe, Africa, Turkey) to strengthen global procurements process and get easy approval from European automotive companies. We believe the short term demand outlook is challenging. However, the long term focus of the company to gain market share by launching new products alongside keeping EBITDA margin at elevated level would help drive revenue, PAT CAGR of 22%, 21% in FY21-23E, respectively.

Focus on new launches in non-automotive segment

The company has guided for market share gains in both its decorative and industrial paint category by new launches in the non-automotive segments like construction chemical business. The Indian construction chemical business is pegged at ₹ 7000 crore. Kansai entered it in FY20. The company will leverage its existing dealer networks (of ~27500) to push new products in FY21-23E thereby aiming to gain market share. The construction chemical business commands similar margin of decorative paints.

Strong balance sheet to navigate short-term challenges

Kansai is the third largest decorative paint players with organised market share of ~10%. While the sales recovery was 95% in FY21, the EBITDA margin of the company increased 200 bps YoY at ~18%. This has helped in a ~100% bottomline recovery for the company in FY21. On the balance sheet front, Kansai maintained its debt free status with net cash balance of ₹ 650 crore. We believe the company's strong balance sheet, supported by a strong promoter pedigree would help it to navigate short-term demand related challenges.

Valuation & Outlook

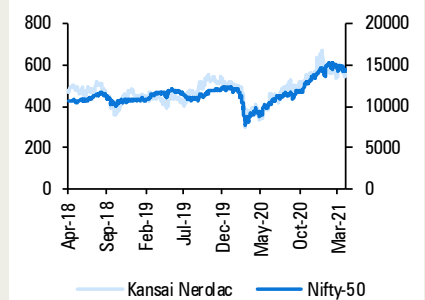
We believe the recent correction in stock price (down 16% from its recent peak), discounts all near term negatives such as lockdown impact and tapering of EBITDA margin from its peak in FY21. Strong brand and robust balance sheet will help the company to recoup its lost sales, going forward. We reiterate our **BUY** recommendation on the stock with a revised target price of ₹ 655 (earlier TP ₹ 675).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	30,502.9
Debt (FY21) (₹ Crore)	90.1
Cash & Inv (FY20) (₹ Crore)	743.4
EV (₹ Crore)	29,849.6
52 week H/L	680 / 333
Equity capital (₹ Crore)	53.9
Face value (₹)	1.0

Price Performance



Key risk to our call

- Delay in volume offtake of industrial paint segment in coming quarter would restrict topline growth (we estimate revenue CAGR of 22% in FY21-23E)
- Delay in passing higher raw material costs may drag EBITDA margin gain

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR(FY21-23E)
Net Sales	5173.6	4943.2	4690.0	5979.8	7017.3	22.3
EBITDA	742.0	781.6	833.1	981.3	1162.9	18.1
EBITDA Margin (%)	14.3	15.8	17.8	16.4	16.6	
Net Profit	467.3	535.4	531.0	653.4	775.4	20.8
EPS (₹)	8.7	9.9	9.9	12.1	14.4	
P/E (x)	65.3	57.0	57.4	46.7	39.3	
Price/Book (x)	8.9	8.1	7.5	7.3	6.5	
Mcap/Sales (x)	5.9	6.2	6.5	5.1	4.3	
RoE (%)	13.6	14.1	13.2	15.7	16.6	
RoCE (%)	20.2	17.5	17.2	20.3	21.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Revenue	1,330.5	1,232.5	988.0	34.7	1,473.4	-9.7	Low base and demand recovery in both decorative and industrial paint categories drives topline in Q4FY21
Other Income	12.4	14.7	4.0	210.3	14.1	-11.9	
Raw Material Exp	872.9	765.6	607.8	43.6	907.1	-3.8	Higher raw material costs and delay in price hikes resulted in lower gross margin (down 410 bps YoY)
Employee Exp	65.9	68.5	64.9	1.5	64.2	2.5	
Manuf & Other exp	188.4	195.7	187.5	0.5	212.2	-11.2	Various cost optimisation measures help in saving in other expenses
Total Expenses	1,127.1	1,029.8	860.3	31.0	1,183.6	-4.8	
EBITDA	203.4	202.7	127.8	59.1	289.8	-29.8	
EBITDA Margin (%)	15.3	16.4	12.9	235 bps	19.7	-439 bps	Lower gross margin was offset by savings in employee & other costs, driving EBITDA margin up 235 bps YoY
Depreciation	40.5	35.5	32.0	26.3	33.6	20.3	
Interest	4.0	1.3	1.3	0.0	1.0	0.0	
PBT	171.3	180.6	98.4	74.0	269.2	-36.4	
Total Tax	43.5	45.1	27.0	61.0	67.3	-35.4	
Adj PAT	127.8	135.4	71.5	78.9	201.9	-36.7	Mainly tracking strong revenue growth and EBITDA margin expansion on a YoY basis
Key Metrics							
Volume Growth (%)	31.0	27.0	-14.0		20.0		Strong volume growth in both decorative and industrial paint category largely on a low base. The decorative paint volume was higher at 29% YoY while industrial paint volume growth was up 31% YoY
Realisation Growth (%)	2.8	-1.8	-0.4		-1.6		Price hikes in the decorative and industrial paint segment to the tune of 2.5% and 4%, respectively

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	6,239.2	5979.8	(4.2)	7072.8	7017.3	(0.8)	We tweak our FY22E-23E estimates factoring in delay in demand recovery amid spodic lockdowns from the start of FY22E
EBITDA	1,019.4	981.3	(3.7)	1188.2	1162.9	(2.1)	
EBITDA Margin %	16.3	16.4	7bps	16.8	16.6	-23bps	We marginally revise our EBITDA margin downwards factoring in higher raw material costs
PAT	685.2	653.4	(4.6)	806.2	775.4	(3.8)	
EPS (₹)	12.7	12.1	(4.6)	15.0	14.4	(3.8)	

Source: Company, ICICI Direct Research

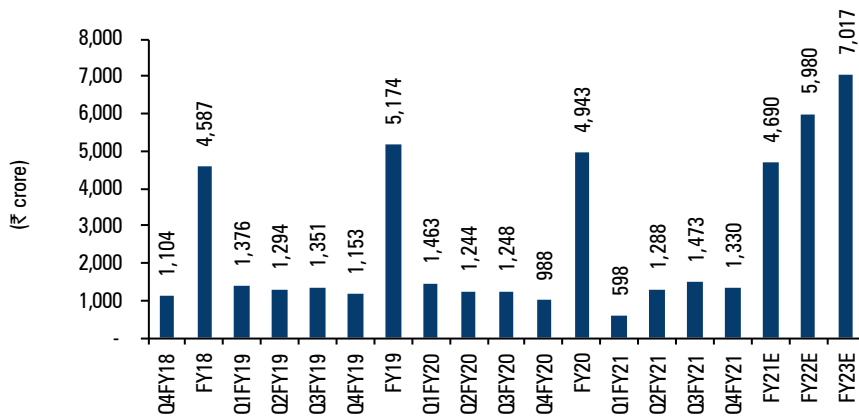
Exhibit 3: Assumption

	Current				Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Volume Growth (%)	-4.4	-4.0	19.7	13.3	31.9	13.4	We believe demand for decorative and industrial paints is likely to be hit by the second wave of Covid-19 in the short to medium term. However, we continue to believe in long term growth drivers such as reducing repainting cycle and lower per capita consumption to drive growth
Realisation Growth (%)	0.1	-1.3	6.6	3.6	2.4	1.1	

Source: Company, ICICI Direct Research

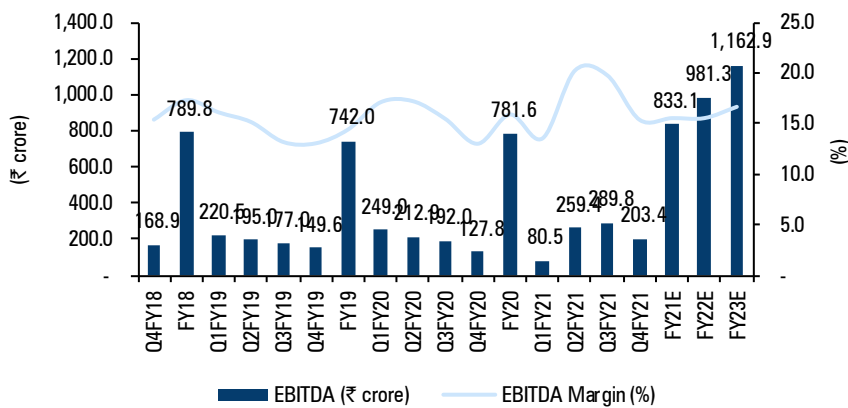
Financial story in charts

Exhibit 4: Expect second wave of Covid-19 to delay recovery in paint demand



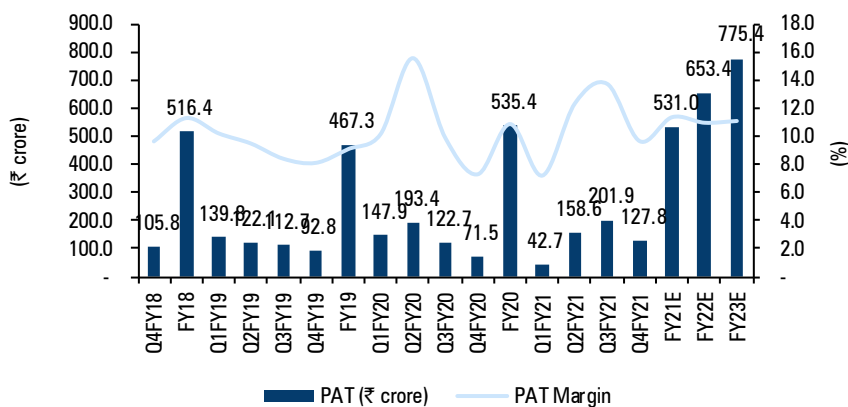
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: PAT movement



Source: Company, ICICI Direct Research

Conference call key takeaways

- **Decorative demand outlook:** Market share in FY21 remains intact. Going forward, focus will be on market share gain through new segment and addition of distribution channel. New segment includes construction chemicals, adhesives, premium wood finishes. Construction chemical industry is pegged at ₹ 7000 crore and growing at the same rate as paints industry. The products command similar margin as paint products
- **Industrial demand outlook:** Market share gain in the industrial product segment in FY21. There was addition of new clients and wallet share gains in the industrial paint segments. Going forward, focus will be on increasing market share in the auto and non-auto segment through implementation of new technologies. The company will also take help of Kansai's group companies globally to implement new technologies to strengthen industrial product portfolios and help in getting faster approval from European automotive companies
- **Price hikes:** In March 2021, Kansai took a price hike of ~2.5% in the decorative product segment. On the industrial front, the company took price hikes in the powder coating, refinish products and performance coating & general industrial segment by ~8%, 5% and 3%, respectively, in Q4FY21. On an average, price in the industrial product segment was ~4%. **The company plans to take price hikes in the coming months to offset higher input prices**
- **EBITDA margin:** Continue focus on cost optimisation measures to maintain EBITDA margin at elevated level. Short-term pressure in gross margin due to delay in passing on higher input prices
- **Domestic subsidiary performance:**
 - **Perma (construction chemical):** Topline grew 4.2% YoY in FY21 and EBITDA margin increased from 9.7% in FY20 to 13.3% in FY21
 - **Marpol (powder coating):** Demand recovery was 98% YoY due to delay in recovery in the automotive segment. EBITDA margin came in at 9.8%
 - **Nerofix (adhesive segment):** JV operation started in December 2019. Clocked EBITDA margin at 3.1% and focus on expanding distribution reach.
- **International subsidiary performance:**
 - **Nepal:** Topline decline of 20% YoY in FY21, EBITDA margin was up by 190 bps YoY to 18%
 - **Bangladesh:** Topline increased 15% YoY in FY21 and EBITDA margin increased from 2.9% in FY20 to 6.1% in FY21
 - **Sri Lanka:** Topline increased to 20% YoY while losses reduced substantially during FY21
 - **Capex:** FY21 capex was at ₹ 147 crore of which ~₹ 42 crore was for maintenance capex. For FY22, capex of ₹ 280 crore was planned of which ₹ 89 crore is for maintenance and technology upgrade capex

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total operating Income	4,943.2	4,690.0	5,979.8	7,017.3	
Growth (%)		-5.1	27.5	17.4	
Raw Material Expenses	3,057.6	2,911.4	3,814.8	4,477.7	
Employee Expenses	269.4	258.6	284.9	322.9	
Other expenses	834.6	686.9	898.8	1,053.8	
Total Operating Expenditure	4,161.6	3,856.9	4,998.5	5,854.5	
EBITDA	781.6	833.1	981.3	1,162.9	
Growth (%)		6.6	17.8	18.5	
Depreciation	119.9	139.0	148.5	174.3	
Interest	5.0	7.5	7.6	7.7	
Other Income	26.9	38.7	47.5	55.8	
Exceptional Income	0.0	10.8	0.0	0.0	
PBT	683.6	714.5	872.7	1,036.6	
Total Tax	148.2	183.5	219.3	261.2	
PAT	535.4	531.0	653.4	775.4	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit before Tax	535.4	531.0	653.4	775.4	
Add: Depreciation	119.9	139.0	148.5	174.3	
(Inc)/dec in Current Assets	-18.1	-721.5	110.5	-497.1	
Inc/(dec) in CL and Provisions	-112.4	289.1	38.6	73.9	
Others	5.0	7.5	7.6	7.7	
CF from operating activities	529.8	245.1	958.6	534.2	
(Inc)/dec in Investments	-41.0	-15.6	-50.0	-50.0	
(Inc)/dec in Fixed Assets	-362.4	-197.8	-280.0	-250.0	
Others	41.0	15.6	50.0	50.0	
CF from investing activities	-369.3	-659.0	-323.7	-122.1	
Inc/(dec) in loan funds	56.6	30.1	-5.0	12.0	
Dividend paid & dividend tax	-205.3	-342.1	-260.7	-260.7	
Others	27.3	97.7	-325.1	-7.7	
CF from financing activities	-121.4	-214.3	-590.7	-256.4	
Net Cash flow	84.7	-91.3	37.9	-22.1	
Opening Cash	78.9	163.6	72.3	110.2	
Closing Cash	163.6	72.3	110.2	88.1	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	53.9	53.9	53.9	53.9	
Reserve and Surplus	3,733.0	4,027.0	4,102.3	4,617.1	
Total Shareholders funds	3,786.9	4,080.9	4,156.2	4,670.9	
Total Debt	60.0	90.1	85.1	97.1	
Deferred Tax Liability	85.0	88.4	88.4	88.4	
Total Liabilities	3,931.9	4,259.4	4,329.7	4,856.4	
Assets					
Gross Block	2,622.0	2,778.4	3,164.2	3,414.2	
Less: Acc Depreciation	913.3	1,052.3	1,200.8	1,375.2	
Net Block	1,708.6	1,726.1	1,963.4	2,039.1	
Capital WIP	164.4	205.8	100.0	100.0	
Total Fixed Assets	1,873.1	1,931.9	2,063.4	2,139.1	
Non-Current Investments	149.9	165.5	215.5	265.5	
Inventory	930.1	1,090.2	1,139.4	1,375.5	
Debtors	674.5	836.2	813.9	1,012.5	
Loans and Advances	19.2	20.8	23.2	27.2	
Investments & Other CA	472.8	824.9	654.1	698.9	
Cash	163.6	72.3	110.2	88.1	
Total Current Assets	2,278.3	2,908.4	2,835.7	3,310.7	
Creditors	519.5	809.0	813.9	859.7	
Provisions & other CL	141.1	140.7	174.4	202.4	
Total Current Liabilities	660.6	949.7	988.3	1,062.1	
Net Current Assets	1,617.7	1,958.7	1,847.5	2,248.5	
Others Non-Current Assets	291.2	203.3	203.3	203.3	
Application of Funds	3,931.9	4,259.4	4,329.7	4,856.4	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	9.9	9.9	12.1	14.4	
Cash EPS	12.2	12.4	14.9	17.6	
BV	70.3	75.7	77.1	86.7	
DPS	3.8	6.3	4.8	4.8	
Cash Per Share	16.9	19.5	22.3	25.5	
Operating Ratios (%)					
EBITDA Margin	15.9	17.9	16.5	16.7	
EBIT Margin	13.5	14.9	14.0	14.2	
PAT Margin	10.9	11.6	11.0	11.1	
Inventory days	69	85	70	72	
Debtor days	50	66	50	53	
Creditor days	39	63	50	45	
Return Ratios (%)					
RoE	14.1	13.2	15.7	16.6	
RoCE	17.5	17.2	20.3	21.5	
RoIC	22.0	22.3	24.2	24.8	
Valuation Ratios (x)					
P/E	57.0	57.4	46.7	39.3	
EV / EBITDA	38.9	36.6	31.1	26.2	
EV / Net Sales	6.2	6.6	5.1	4.4	
Market Cap / Sales	6.2	6.6	5.1	4.4	
Price to Book Value	8.1	7.5	7.3	6.5	
Solvency Ratios					
Debt/EBITDA	0.1	0.1	0.1	0.1	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.7	2.3	2.3	2.6	
Quick Ratio	1.3	1.1	1.1	1.3	

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,556	3,010	Hold	2,45,120	32.8	39.9	46.3	77.9	64.0	55.2	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,564	1,670	Hold	23,564	22.2	30.4	37.1	70.4	51.4	42.2	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	3,010	3,015	Buy	9,465	29.8	68.2	97.6	100.9	44.1	30.9	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,132	1,075	Buy	12,870	18.9	25.4	35.2	NM	36.3	26.1	31.0	25.0	18.2	17.6	21.4	24.8	13.5	17.3	19.9
Berger Paints (BERPAI)	723	810	Hold	70,218	7.6	9.7	12.4	95.1	74.4	58.5	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	377	480	Buy	23,638	7.9	9.5	12.0	47.4	39.6	31.3	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
Dixon Technologies (DIXTEC)	3,866	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	238	250	Hold	7,509	7.8	8.9	10.8	30.4	26.7	22.1	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,005	1,255	Hold	62,702	16.1	17.8	22.9	62.5	56.5	43.8	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	566	655	Buy	30,503	9.9	12.1	14.4	57.4	46.7	39.3	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	474	600	Buy	1,314	16.5	20.8	28.0	28.8	22.8	16.9	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,846	1,920	Buy	93,740	22.1	28.2	32.9	83.4	65.5	56.1	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,492	1,385	Buy	22,213	57.9	67.2	79.7	25.8	22.2	18.7	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,149	2,390	Hold	27,298	77.0	64.9	72.4	27.9	33.1	29.7	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,105	1,345	Hold	7,730	15.3	28.5	39.5	72.2	38.8	27.9	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	84	75	Buy	1,900	4.4	9.6	-	19.1	8.7		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	225	265	Buy	9,636	4.2	6.1	7.1	53.2	37.0	31.8	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	968	1,260	Buy	32,015	15.7	25.8	32.1	61.5	37.5	30.2	58.5	35.6	28.4	16.3	22.6	24.2	11.4	16.8	17.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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