

# Kansai Nerolac Paints

**Rs 340**
*Nice prospects*

Sensex: 26,747

Nifty: 8,262

## FINANCIAL SUMMARY

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTR.	PBDT	DEP.	PBT AFTER EO	EO	PBT	TOTAL TAX	PAT	EPS* (RS)
1403 (12)	3154.35	11.5	362.09	10.33	372.42	0.45	371.97	64.98	306.99	0	306.99	100.42	206.57	3.8
1503 (12)	3549.06	12.5	444.82	21.79	466.61	0.02	466.59	67.69	398.9	0	398.9	127.23	271.67	5
1603 (12)&	4245.52	13.7	579.98	27.35	607.33	0	607.33	67.72	539.61	535.34	1074.95	176.1	898.85	6.7
1703 (12P)&	4552.99	16	730.47	90.48	820.95	0	820.95	70.1	750.85	0	750.85	251.76	499.09	9.3
1803 (12P)&	5026.5	16	804.24	95	899.24	0	899.24	77.11	822.14	0	822.14	275.42	546.72	10.1

\* Annualized on current equity of Rs 53.89 crore; Face value Re 1 each. (P): Projections. & Figures as per new Indian Accounting Standards. EPS is calculated after excluding the EO and relevant tax. EO: Extra-ordinary item. P: Projections. Figures in Rs crore. Source: Capitaline Databases

Kansai Nerolac Paints (KNPL), a 74.22% subsidiary of Kansai Paint Co., Japan, started as Gahagan Paints and Varnishes Co. Ltd. in the year 1920. Having completed 94 years, Kansai Nerolac has been known as a strong player in the paint industry with high reputation for quality, innovation and brand identity. Today it is the second largest paint company in India.

KNPL services customers in both decorative as well as industrial segments. The company has coating solutions across the Decorative, Wood Coatings, General Industrial, High Performance Coatings, Powder Coatings, Automotive, and Auto Refinish market segments.

The company is recognized as a pioneer of the environment friendly products and in line with its chosen platform of Healthy Home Paints, it plans to continue to spread awareness and also develop new environment friendly products with superior quality.

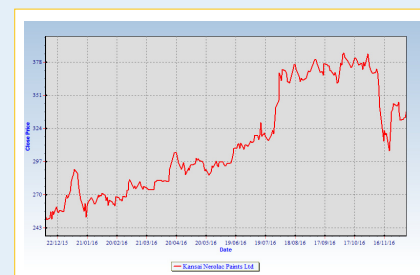
Setting up two new state-of-the-art facilities in Gujarat and Punjab and R&D facility in Navi Mumbai

The company serves its customers through a network of four manufacturing facilities strategically located at Lote in Maharashtra, Bawal in Haryana, Jainpur in U.P. and Hosur in Tamil Nadu and around hundred strategically located depots. KNPL's manufacturing prowess, combined with a vast network of geographically distributed depots allows the company to be responsive in meeting the high service level expectations of its customers.

In the process of shifting of its manufacturing operations from Chennai to Gujarat, in FY 2016, the Company has sold its factory land and building in Chennai for a total consideration of Rs 537.86 crore. Proceeds from monetization of assets of Chennai plant will be utilized for setting up plant at Gujarat.

Along with the existing capacity, the company has also announced plans for setting up two new state-of-the-art facilities in Gujarat and Punjab, which will be a shot in the arm for product delivery and order fulfillment capabilities. Along with manufacturing units, KNPL is also setting up a world-class R&D facility at Navi Mumbai in order to develop cutting-edge and futuristic product offerings to customers.

The company will set up a paint manufacturing unit at Sayakha Industrial Estate in Gujarat having capacity of 42000 MT / year, which is expandable in phases, at an



## STOCK DATA

BSE Code	:	500165
BSE Group	:	A
NSE Code	:	KANSAINER
Bloomberg	:	KNPL IN
Reuters	:	KANE.BO
Par Value	:	Re 1
52-week High/LowRs	:	403 / Rs 242
Sector	:	Paints-Varnishes

## SHAREHOLDING PATTERN\*

Category	% of equity
Foreign	: 7.53
Institutions	: 8.17
Corporate Holding	: 1.42
Promoters	: 74.22
Public & Others	: 8.65

\* as on 30/09/2016  
Source: Capitaline Databases

estimated cost of Rs 350 crore.

The company will also set up a paint manufacturing unit at Goindwal Sahib near Amritsar in Punjab having capacity of 38000 MT per year, which is expandable in phases, at an estimated cost of Rs. 180.50 crore.

It will also set up a Global R & D Centre at Vashi, Navi Mumbai, at an estimated cost of Rs. 40 crore.

Parent Kansai Paint Co. Ltd., Japan has helped bring the latest technology products

The continued technology focus from the parent Kansai Paint Co. Ltd., Japan has helped bring the latest technology products. Based on the excellent track record and new technology offerings, Multiple New OEM Business have been awarded for future business prospects. In addition the company's state-of-the-art Hosur plant is now fully operational and has been approved as a factory of supply by Industrial customers as well.

#### **Enhancing its market leadership in industrial coatings**

KNPL is the market leader in industrial coatings, and has managed to retain its leadership position over the years owing to innovative product and service offerings to industrial customers.

In FY 2016, KNPL further improved its leadership position in the Automotive and Industrial Coatings Segments. By focusing on new products and solutions, KNPL continued to provide a number of value added offerings to all its customers.

The company enhanced its market leadership by entering into a long term technical collaboration with Protech Oxyplast of Canada for Powder Coatings. Protech Oxyplast is a leading global player in the powder coating space. The collaboration will help KNPL to bring numerous new technologies in powder coatings to the Indian market.

#### **Has made inroads in Railways business for coaches and wagons**

The company has made inroads in Railways business for coaches and wagons. In Performance Coatings Segment, New business and new products were the focus. The company continues to focus on gaining approvals from large buyers of paint. New products like Direct to metal coatings for Industrial application have been introduced. The Company launched Floor Coatings Products during the last year with favourable response.

#### **Has initiated many strategic initiatives aimed at strengthening the Nerolac Brand**

The company has initiated many strategic initiatives aimed at strengthening the Nerolac Brand. These have contributed to helping the Company achieve strong growth in the decorative segment and be well positioned to take advantage of the improvement in the demand climate expected.

The financial year saw KNPL strategically increasing its media presence. The overall spend on marketing activities has been increased substantially, which led to KNPL aggressively promoting its brand of products across media channels, recording increased air time, higher visibility, and improved top-of-mind recall.

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Along with the existing capacity, the company has also announced plans for setting up two new state-of-the-art facilities in Gujarat and Punjab, which will be a shot in the arm for product delivery and order fulfillment capabilities

Launched product in the volume driven, fast growing bottom of the pyramid space of the market

In one of the major developments of FY2016, the company launched a second brand called Soldier in the Decorative market. The brand aims to capitalize on the opportunities in the volume driven, fast growing bottom of the pyramid space of the market. The brand is being retailed through a different distribution network. In a short span, the brand has managed to generate great consumer interest as well as strong market acceptability

#### **Vast Auto market**

With entry of more foreign players and a slew of new launches being lined up by major OEMs, the auto industry is bound to grow in the country. There is a huge opportunity in the auto-refinish market which the company can capitalize by leveraging its leadership position in the industrial sector.

KNPL has worked closely with the Auto Industry and in FY 2016 has introduced more enhanced products like a superior Mar and Scratch Resistant Clear Coat and High Solid Base Coats. KNPL also enhanced its range of colors for Car Interior Coatings, which are eco-friendly, free of Hazardous Air Pollutants (HAPs) and meet international coating standards.

#### **Has increased focus on other sectors also**

KNPL has increased focus on the Oil and Gas, Offshore, Energy and Railways segment in Performance Coatings. It is targeting strong presence in the Chemical, Petrochemical, Petroleum and Oil and Gas Segment.

The company has progressed significantly in the Floor Coating market and introduced number of product variants aimed at strengthening its base.

#### **Financial performance**

In quarter ended September 2016, sales grew 5% to Rs 1133.75 crore. OPM jumped 300 basis points to 17.5% which saw OP growing 27% to Rs 198.26 crore. After providing for taxation (up 47% to Rs 71.17 crore), PAT grew 45% to Rs 139.31 crore.

For the six months ended September 2016, sales grew 7% to Rs 2324.37 crore. OPM jumped 250 basis points to 16.6% which saw OP growing 26% to Rs 385.03 crore. After providing for taxation (up 48% to Rs 135.29 crore), PAT grew 37% to Rs 265.81 crore.

#### **Valuation and risks**

In FY2017 we expect the company to register sales and net profit of Rs 4552.99 crore and Rs 499.09 crore respectively. On equity of Rs 53.89 crore and face value of Re 1 per share, EPS works out to Rs 9.3. This EPS is likely to rise to Rs 10.1 in FY 2018 on sales of Rs 5026.50 crore and PAT of Rs 546.72 crore. The share price trades at Rs 340. P/E works out to 33.5 on [projected FY 2018 EPS. Our target price of Rs 400 discounts the projected FY 2018 EPS by 40 times.

Key risks are delay and sluggish recovery in auto and other industries, adverse raw material and forex fluctuations, adverse development on royalty front, heightened competition.

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### KANSAI NEROLAC PAINTS: RESULTS

	1609 (3)	1509 (3)	VAR. (%)	1609 (6)	1509 (6)	VAR. (%)	1603 (12)
Sales	1133.75	1075.47	5	2324.37	2181.98	7	4245.52
OPM (%)	17.5	14.5		16.6	14.1		13.7
OP	198.26	155.81	27	385.03	306.77	26	579.98
Other inc.	29.39	5.93	396	50.48	11.66	333	27.35
PBIDT	227.65	161.74	41	435.51	318.43	37	607.33
Interest	0.00	0.00	—	0.00	0.00	—	0.00
PBDT	227.65	161.74	41	435.51	318.43	37	607.33
Dep.	17.17	17.00	1	34.41	33.73	2	67.72
PBT	210.48	144.74	45	401.10	284.70	41	539.61
EO	0.00	0.00	—	0.00	0.00	—	535.34
PBT after EO	210.48	144.74	45	401.10	284.70	41	1074.95
Total Tax	71.17	48.48	47	135.29	91.25	48	176.10
PAT	139.31	96.26	45	265.81	193.45	37	898.85
EPS (Rs) *	10.3	7.1		9.9	7.2		6.7

\* on current equity of Rs 53.89 crore. Face value Re 1 each. All figures are as per new Indian Accounting Standard. Comparable figures for prior period are not available. #EPS not annualized due to seasonality in business. EPS is calculated after excluding the EO and relevant tax

EO: Extra-ordinary item. Figures in Rs crore.

Source: Capitaline Databases