

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	KDLA.BO
Bloomberg code	KNPLIN
Market cap. (US\$ mn)	515
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	27
Target price (Rs)	1,092

#### Performance (%) 1M 3M 12M

Absolute	10	51	137
Relative	13	42	23

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	60.0	64.3
+/- (%)	64.0	7.0
PER (x)	14.9	14.0
PBV (x)	3.2	2.7
Dividend/Yield (%)	1.8	1.9
EV/Sales (x)	1.3	1.1
EV/EBITDA (x)	7.8	6.7

#### Major shareholders (%)

Promoters	69
FII's	5
MF's	1
BFSI's	5
Public & Others	20

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)
Net Sales	3,903	4,488	15.0	4,129	8.7	7,446	8,617	15.7	13,745	15,666	14.0
EBITDA	451	848	88.0	596	42.2	898	1,444	60.8	1,575	2,539	61.2
EBITDA margin (%)	11.6	18.9	-	14.4	-	12.1	16.8	-	11.5	16.2	-
Other Income	43	36	(14.8)	87	(58.3)	96	124	28.7	222	272	22.6
Interest	6	3	(52.7)	3	(13.3)	9	6	(40.4)	18	45	144.8
Depreciation	91	103	12.7	96	6.9	177	199	12.1	376	439	16.6
PBT	397	779	96.2	585	33.3	808	1,364	68.9	1,402	2,327	66.0
Total Tax	126	249	97.2	162	54.4	253	411	62.4	416	710	70.6
Reported PAT	271	530	95.8	423	25.3	573	953	66.4	986	1,617	64.0
Adjusted PAT	271	530	95.8	423	25.3	555	953	71.8	986	1,617	64.0
Adjusted EPS (Rs)	10.0	19.7	95.8	15.7	25.3	20.6	35.4	71.8	36.6	60.0	64.0

## Kansai Nerolac Paints

Maintain Outperformer

Price: Rs 897

BSE Index: 16,353

27 October 2009

### 2QFY10 Result – Phenomenal margins

**A 30% volume growth by Maruti Suzuki and growth in the emulsions segment led to ~17% volume growth for Kansai Nerolac (KNPL). The proportion of emulsions in the decorative paints bouquet has increased and with emulsions registering higher growth the overall growth of the decorative paints segment increased substantially to ~15%. As industrial paints are solvent-based the roll-back of prices were much faster as compared to the water-based emulsions resulting in a drop in realisations for solvent-based paints and realisations of decorative paints flat YoY. This resulted in a 15% growth in sales to Rs 4.5 bn, 3.4% above expectations.**

**Cost of PAN and PENTA (crude oil derivatives – 70% of raw materials) was down ~20% YoY while the cost of pigments, mainly titanium dioxide (mineral – 30% of raw materials) was up 27% YoY in 2QFY10. This resulted in a 430 bps YoY improvement in cost of raw materials in 2QFY10. Last year in 2QFY09, the crude oil prices were at their peak and hence the substantial improvement in raw material cost savings. The operating margins for 2QFY10 were up 730 bps YoY to 18.9%.**

### Outlook and valuation

The automobile manufacturers are expanding capacity in FY10 which should be commissioned in FY11. In the domestic sector, Maruti and also international players such as Nissan, VW, Ford and GM each will have ~1 lac car per annum capacity up and running by FY11. This would result in huge demand for automotive paints and should result in substantial growth in volumes for KNPL, which is India's largest automotive paint company. The demand for decorative paints, mainly emulsions should see ~14% growth in volumes.

We revise our FY10E earnings estimate to factor in higher operating margins, 2QFY10 recorded peak margins of 18.9%. We increase our FY10E EPS by 24% to Rs 60. We maintain Outperformer rating on the stock and revise our target price to Rs 1,092 based on 17x FY11E EPS of Rs 64.3.

## Outlook

The 1HFY10 has posted strong growth ~14% in volumes of decorative paints led by Tier II & III towns. Emulsions have been growth at a fast pace as companies have introduced lower priced paints in the category. The demand for decorative paints, mainly emulsions should see ~14% growth in volumes in FY10 and FY11.

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## Assumptions

Growth estimate (%)	FY09	FY10E	FY11E
Volume growth	8.6	16.0	12.9
Value growth	0.8	(5.0)	–

## Valuation

We revise our FY10E earnings estimate to factor in higher operating margins, 2QFY10 recorded peak margins of 18.9%. We increase our FY10E EPS by 24% to Rs 60.0. We maintain Outperformer rating on the stock and revise our target price to Rs 1,092 based on 17x FY11E EPS of Rs 64.3.

At the current market price of Rs 897, KNPL is trading at 15x FY10E EPS of Rs 60 and 14x FY11E EPS of Rs 64.3.

## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>13,198</b>	<b>13,745</b>	<b>15,666</b>	<b>17,548</b>
<i>Growth (%)</i>	<i>8.0</i>	<i>4.1</i>	<i>14.0</i>	<i>12.0</i>
Operating expenses	(11,329)	(12,170)	(13,127)	(14,767)
Operating profit	1,868	1,575	2,539	2,781
<b>EBITDA</b>	<b>1,868</b>	<b>1,575</b>	<b>2,539</b>	<b>2,781</b>
<i>Growth (%)</i>	<i>8.8</i>	<i>(15.7)</i>	<i>61.2</i>	<i>9.6</i>
Depreciation	(396)	(376)	(439)	(508)
Other income	248	222	272	306
<b>EBIT</b>	<b>1,721</b>	<b>1,421</b>	<b>2,372</b>	<b>2,579</b>
Interest paid	(14)	(18)	(45)	(52)
Pre-tax profit	1,707	1,402	2,327	2,527
(before non-recurring items)				
Pre-tax profit	1,707	1,402	2,327	2,527
(after non-recurring items)				
Tax (current + deferred)	(506)	(416)	(710)	(796)
Net profit	1,201	986	1,617	1,731
<b>Adjusted net profit</b>	<b>1,201</b>	<b>986</b>	<b>1,617</b>	<b>1,731</b>
<i>Growth (%)</i>	<i>11.1</i>	<i>(17.9)</i>	<i>64.0</i>	<i>7.0</i>
<b>Net income</b>	<b>1,201</b>	<b>986</b>	<b>1,617</b>	<b>1,731</b>

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09E	FY10E	FY11E
Current assets	6,798	7,921	9,013	10,597
Investments	202	4	4	4
Net fixed assets	2,338	2,730	3,127	3,086
Other non-current assets	104	106	90	74
<b>Total assets</b>	<b>9,442</b>	<b>10,761</b>	<b>12,233</b>	<b>13,760</b>
Current liabilities	2,526	3,281	3,380	3,709
Total debt	980	936	1,190	1,190
<b>Total liabilities</b>	<b>3,505</b>	<b>4,217</b>	<b>4,570</b>	<b>4,899</b>
Share capital	269	269	269	269
Reserves & surplus	5,668	6,275	7,394	8,591
<b>Shareholders' funds</b>	<b>5,937</b>	<b>6,545</b>	<b>7,663</b>	<b>8,861</b>
<b>Total equity &amp; liabilities</b>	<b>9,442</b>	<b>10,762</b>	<b>12,233</b>	<b>13,760</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09E	FY10E	FY11E
Pre-tax profit	1,707	1,402	2,327	2,527
Depreciation	384	316	434	503
Chg in working capital	131	882	(653)	31
Total tax paid	(542)	(420)	(682)	(780)
<b>Cash flow from oper. (a)</b>	<b>1,679</b>	<b>2,181</b>	<b>1,426</b>	<b>2,281</b>
Capital expenditure	(647)	(708)	(830)	(462)
Chg in investments	(773)	(623)	(575)	(725)
<b>Cash flow from inv. (b)</b>	<b>(1,421)</b>	<b>(1,331)</b>	<b>(1,405)</b>	<b>(1,187)</b>
<b>Free cash flow (a+b)</b>	<b>258</b>	<b>850</b>	<b>21</b>	<b>1,094</b>
Debt raised/(repaid)	(120)	(43)	254	–
Dividend (incl. tax)	(17)	(378)	(378)	(498)
Other financing activities	(3)	–	(6)	–
<b>Cash flow from fin. (c)</b>	<b>(140)</b>	<b>(422)</b>	<b>(131)</b>	<b>(498)</b>
<b>Net chg in cash (a+b+c)</b>	<b>118</b>	<b>428</b>	<b>(110)</b>	<b>596</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09E	FY10E	FY11E
EPS (Rs)	44.6	36.6	60.0	64.3
EPS growth	11.2	(17.9)	64.0	7.0
EBITDA margin	14.2	11.5	16.2	15.8
EBIT margin	13.0	10.3	15.1	14.7
RoCE	26.2	19.7	29.0	27.3
Net debt/Equity	(24.8)	(42.3)	(38.9)	(48.6)

## Valuations

Yr end 31 Mar (x)	FY08	FY09E	FY10E	FY11E
PER	20.1	24.5	14.9	14.0
PCE	15.1	17.7	11.8	10.8
Price/Book	4.1	3.7	3.2	2.7
Yield (%)	1.3	1.3	1.8	1.9
EV/Net sales	1.6	1.5	1.3	1.1
EV/EBITDA	11.5	12.8	7.8	6.7

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09E	FY10E	FY11E
Net margin (%)	9.1	7.2	10.3	9.9
Asset turnover	1.5	1.4	1.4	1.4
Leverage factor	1.6	1.6	1.6	1.6
Return on equity (%)	21.7	15.8	22.8	21.0

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**Analyst Declaration:** I, Vishal Biraia, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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**B&K Investment Ratings:**

1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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