



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Kunal Bhatia (022) 67141442

Result Update @ Dalal & Broacha

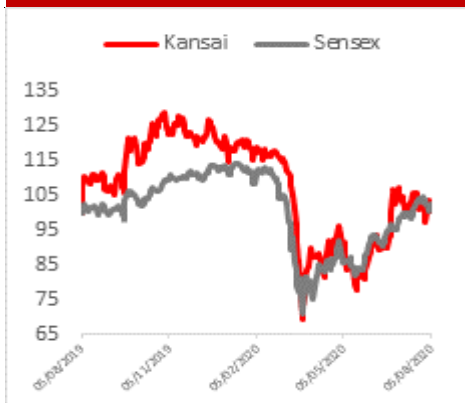
Buy on Dips

Current Price	442
52 Week Range	Rs 573/296
Target-Price	460
Upside	4%

Key Share Data

Market Cap (Rs.bn)	238
Market Cap (US\$ mn)	3188
No of o/s shares (mn)	539
Face Value	1
Monthly Avg. vol (BSE grew by NSE) Nos'000	311
BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL:IN

Price performance



% Shareholding

	Jun-20	Mar-20
Promoters	74.99	74.99
Institutions	15.61	15.22
Others	8.94	9.07
Total	100.0	100.0

Key Financials (in mn)

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY18	46,580.8	14.9	7,937.9	17.0	5,144.0	1.1	9.5	46.3	16.4	22.8
FY19	54,243.2	16.4	7,525.2	13.9	4,527.5	(12.0)	8.4	52.6	13.3	18.4
FY20e	52,799.7	(2.7)	8,044.6	15.2	5,210.1	15.1	9.7	45.7	13.9	16.8
FY21e	40,560.8	(23.2)	6,860.9	16.9	4,128.9	(20.8)	7.7	57.7	10.3	12.7
FY22e	65,960.3	62.6	10,632.1	16.1	7,052.7	70.8	13.1	33.8	15.9	20.0

Kansai standalone Q1FY21 results better than expectations, delivers profitable quarter

- **Revenues** declined by 59% YoY to Rs 5981mn
- **EBIDTA** declined by 68% YoY to Rs 805mn
- **EBIDTA Margins** stood at 13.5% v/s 17% YoY
- **PAT** declined by 71% YoY to Rs 427mn

Other Details:

- **Raw Mat to Revenues** 58.4% v/s 61.7% YoY and 61.5% QoQ (12 Qtr low)
- **Employee cost** was down by 4.5% YoY to Rs 645mn
- **Other Expenses as % to Revenues** stood at 17.4% v/s 16.6% YoY
- **PBT** declined by 76% YoY to Rs 553mn

Conference call and Management KTA's

Demand Scenario in Decorative remains similar in July, Decorative (~55% of revenues) witnessed double-digit volume growth in May and June, July on similar lines

- Economy and Ultra-Economy range (Enamel, Putty and Primers) aided revenues driven by rural and tier2 & tier3 towns. Ultra economy paints under Solider and nerolac brand were launched (Industry data Putty: un-organized players have larger market shares v/s organized)
- Tier1 and metros remained slow in Q1FY21 which are slowly picking up.
- Geographically demand across smaller towns was similar except West which was muted (West is ~25% of Industry)
- Tier-1 and Metro picking up will increase demand for premium products
- Project business recovery is slow

Industrial business improving MOM

- Auto (~33% of Revenues) remained muted in Q1 and other industrial down 60-70%. Both are improving MoM, 2W recovery is faster compared to PV.
- Alternate business i.e. auto-refinish did better than auto. (market size is Rs 1200crs)
- Construction chemical range (under Kansai Prema) started picking up in May and growth was shown in June.
- Powder Coating business under Marpol saw MOM improvement in May and June



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- Adhesives business under Nerofix was impacted severely in Q1FY21
(Industry data: Water Proofing is a Rs50bn opportunity)

Outside India business scenario:

- Nepal market was most impacted closed till 15-June-20
- Lanka and Bangladesh June month recorded growth
Note: (All Subs form ~6.5% of Cons Revenues)

Other Key Takeaways

- Construction chemicals and Putty together now contribute in the range of ~ 5% to 10% of revenues.
- Launched: Hygeine care products, performance coating and ultra economy paint under Solider and nerolac brand (this was after Asian Paints)
- Generally new product segments contribute ~5% of revenue, and have same distribution channel which gives cost synergies.
- Overall Capacity utilization stands at 50-55% v/s 70% pre-covid levels.
- Gross Margins in economy emulsion is lower to premium, however EBIDTA levels margins are similar on account of lower marketing costs.

Raw Material remains benign, however volatility in crude oil prices and forex makes outlook uncertain.

- Jan-Feb-March inventory is high as April and May are seasonal quarter for paint industry, this inventory was at higher cost which got utilized.

Outlook:

Positive but cautious

Focus would remain to reduce fixed costs and generate volumes from economy and ultra-economy products.

With metros opening up premium products contribution too shall rise.

Valuations Revised:

The company showing profit in this scenario was commendable and double digit volume growth in decorative paints in May and June is a positive sign, with Maruti Sales improving the numbers could further improve.

At CMP of Rs 443 the stock trades at 58x FY21e EPS of Rs 7.7 and 34x FY22e EPS of Rs 13. We maintain Buy on dips with target price of Rs 460.



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Quarterly Snapshot

Particulars (Rs Mns)	Q1FY21	Q1FY20	Growth	Q4FY20	Growth
Net Sales (excluding Excise Duty & GST)	5904.3	14568.2	-59.5%	9809.7	-39.8%
Other Operating Income	76.2	66.5	14.6%	70.7	7.8%
TOTAL Operating income	5980.5	14634.7	-59.1%	9880.4	-39.5%
Cost of material consumed	2300.6	7092.1	-67.6%	6519.5	-64.7%
Purchase of stock in trade	434.7	684.9	-36.5%	786	-44.7%
Changes of inventories	754.4	1259.3	-40.1%	-1227.4	-161.5%
Total raw material consumed	3489.7	9036.3	-61.4%	6078.1	-42.6%
% OF OPERATING INCOME	58.4%	61.7%		61.5%	
Employee expenses	645	675.5	-4.5%	649	-0.6%
% OF OPERATING INCOME	10.8%	4.6%		6.6%	
Other expenses	1040.7	2432.7	-57.2%	1875.4	-44.5%
% OF OPERATING INCOME	17.4%	16.6%		19.0%	
TOTAL EXPENDITURE	5175.4	12144.5	-57.4%	8602.5	-39.8%
Other Income	79.3	65.1	21.8%	39.9	98.7%
EBITDA	884.4	2555.3	-65.4%	1317.8	-32.9%
EBIDTA (Excl Other Income)	805.1	2490.2	-67.7%	1277.9	-37.0%
EBIDTA MARGINS	13.5%	17.0%		12.9%	
Depreciation	318.3	277.8	14.6%	320.4	-0.7%
Interest	13.2	12.6	4.8%	12.9	2.3%
PBT	552.9	2264.9	-75.6%	984.5	-43.8%
Exceptional Items					
TAX	125.8	785.9	-84.0%	269.9	-53.4%
TAX RATE	22.8%	34.7%		27.4%	
Net Profit Reported	427.1	1479	-71.1%	714.6	-40.2%
PAT Adjusted	427.1	1479	-71.1%	714.6	-40.2%
NPM	7.0%	10.1%		7.2%	
Equity	538.9	538.9	0.0%	538.9	0.0%
EPS on Adjusted PAT	0.79	2.74	-71.1%	1.33	-40.2%



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