



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update @ Dalal & Broacha

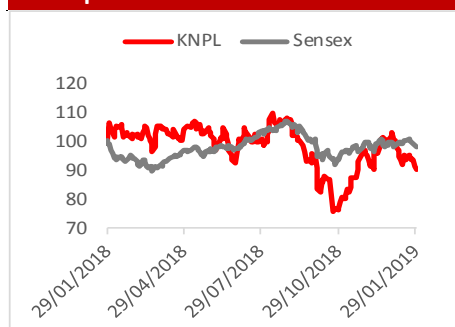
ACCUMULATE

Current Price	427
52 Week Range	Rs 608/381

Key Share Data

Market Cap (Rs.bn)	230.57
Market Cap (US\$ mn)	3224.75
No of o/s shares (mn)	538.91
Face Value	1.0
Monthly Avg. vol(BSE+NSE) Nos'000	120.07
BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL IN

Price performance



% Shareholding

	Dec-18	Sept-18
Promoters	74.99	74.99
Institutions	15.47	15.58
Others	9.54	9.43
Total	100.0	100.0

Kansai Nerolac Q3FY19 Results below expectations on bottomline however topline beats our estimates with 18% YoY growth.

Management mentioned that this quarter is the **bottom in-terms of margins** and Q4FY19 should better than Q3FY19, however reaching peak margins of FY18 will take some time.

Revenues increased by 18% YoY to Rs 13436.4mn, Demand for Decorative (delayed festive season contributed to the good demand) was strong. Decorative is ~55% of revenues.

Volume growth stood at 17%.

Industrial segment remains on account of lower growth in the Automotive industry especially negative growth in passenger cars)

Festive Season: witnessed 20%+ growth especially on account of architectural (home painting) sector, however Auto sector was slow.

Raw Material as percentage to revenues stood at 65.5% as against 60% YoY and 64.5% QoQ.

Currently there is a decline in crude oil prices and rupee has strengthened marginally vis a vis the dollar, however prices of derivatives still need to come down.

Important Reasons of raw material cost increase: Antidumping duty on some Chinese chemicals in addition to environmental issue in China impacted supply side of raw materials in addition to crude volatility and rupee depreciation. Since cost pressures were high, the company was unable to pass on full impact of costs increase to industrial customers and inventory loss too impacted raw materials.

EBIDTA for Q3FY19 declined by 7.9% YoY at Rs 1770mn. EBIDTA margins 13.1% v/s 16.8% YoY and 15.1% QoQ.

Contribution towards margins by decorative segment was maintained however in case of industrial it was sharply down, (management mentioned that since Auto Sector continues to remain slow passing on the entire increase would take time and since these are long-term contracts they will support clients to certain extent)

Q3FY19 PBT declined by 10% YoY to Rs 1733mn and PAT stood at 1127mn down 10% YoY.

Going forward Q4FY19e expected to be better than Q3FY19 in terms of margins

Valuations @ Rs427: 46.9x FY19e EPS of Rs 9.1 and 35x FY20e EPS of Rs 12.3.

We recommend **Accumulate** at current levels.

Key Financials (in mn)

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY16	37,668.7	5.0	5,846.6	15.5	3,659.1	33.5	6.8	62.9	14.6	20.3
FY17	40,525.5	7.6	7,374.0	18.2	5,088.4	39.1	9.4	45.2	18.1	23.6
FY18	46,580.8	14.9	7,931.2	17.0	5,144.0	1.1	9.5	44.7	16.4	22.8
FY19e	53,365.1	14.6	7,903.6	14.8	4,903.8	(4.7)	9.1	46.9	14.3	20.4
FY20e	61,353.1	15.0	10,498.9	17.1	6,606.6	34.7	12.3	34.8	17.2	24.7



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Particulars (Rs Mns)	Q3FY18	Q3FY19	9MFY18	9MFY19
Net Sales (excluding Excise Duty & GST)	11392.70	13436.40	34713.20	39968.80
<i>Growth</i>		17.9%		15.1%
Other Operating Income	57.400	70.200	116.90	235.80
<i>Growth</i>		22.3%		101.7%
TOTAL Operating income	11450.10	13506.60	34830.10	40204.60
<i>Growth</i>		18.0%		15.4%
Cost of material consumed	6692.4	8418.400	19701.10	24692.10
Purchase of stock in trade	522	685.4	1528.30	1884.10
Changes of inventories	-348.9	-261.5	-330.50	-899.50
Total raw material consumed	6865.5	8842.3	20898.9	25676.7
% OF OPERATING INCOME	60.0%	65.5%	60.0%	63.9%
<i>Growth</i>		28.8%		22.9%
Employee expenses	578.5	677	1694.60	1944.60
<i>Growth</i>		17.0%		14.8%
% OF OPERATING INCOME	5.1%	5.0%	4.9%	4.8%
Other expenses	2083.70	2217.60	6028.20	6659.60
% OF OPERATING INCOME	18.2%	16.4%	17.3%	16.6%
<i>Growth</i>		6.4%		10.5%
TOTAL EXPENDITURE	9527.7	11736.9	28621.7	34280.9
Other Income	197.6	198.4	537.90	474.30
EBITDA	2120.00	1968.10	6746.30	6398.00
EBIDTA (Excl Other Income)	1922.40	1769.70	6208.40	5923.70
EBIDTA MARGINS	16.8%	13.1%	17.8%	14.7%
<i>Growth</i>		-7.9%		-4.6%
Depreciation	193.7	235.1	561.20	669.90
EBIT	1926.30	1733.00	6185.10	5728.10
Interest			0.00	0.00
Reversal of depreciation			0.00	0.00
PBT	1926.30	1733.00	6185.10	5728.10
Exceptional Items				
TAX	674.8	606.0	2079.20	1982.80
TAX RATE	35.0%	35.0%	33.6%	34.6%
Net Profit Reported	1251.50	1127.00	4105.90	3745.30
Non Controlling Interest				
PAT Adjusted	1251.50	1127.00	4105.90	3745.30
<i>Growth</i>		-9.9%		-8.8%
NPM	10.74%	8.22%	11.61%	9.21%
Other Comprehensive Income	-5.20	-3.60	-15.70	-11.20
Total Comprehensive Income	1246.30	1123.40	4090.20	3734.10
Equity	538.9	538.9	538.9	538.9
EPS on Adjusted PAT	2.32	2.09	7.62	6.95



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