

## Reduce

### Revival in Decoratives; Automotive remains under pressure

- Revenues de-grew 59.1% YoY to Rs 6.0bn in Q1FY21 primarily due to continued slowdown in the automotive segment, further aggravated by Covid enforced lockdown.
- Though April'20 was a complete washout across segments, decorative business witnessed double digit volume growth in May and June. However, Industrial sales continued to remain under pressure in both months.
- As RM costs were lower due to fall in crude oil derivatives, GM expanded 340bps in Q1 - fourth consecutive quarter of GM expansion.
- Given slowdown in automotive business, despite favorable base, automotive paints business is likely to remain subdued, going ahead.
- Amidst slowdown in Auto sector and expected reduction in painting activities, we have lowered FY21E and FY22E EPS estimates to Rs 6.9 (-27.9%) and Rs 10.0 (-13.0%). Valuing Kansai at 45x FY22 EPS to arrive at a TP of Rs 450. Maintain Reduce.

### Industrial paints to remain under pressure; improvement in decorative

During the quarter, Kansai posted significant deceleration in decorative and industrial segment. Slowdown in automotive industry impacted the automotive paints business even before lockdown. We believe that the automotive business would take more time to recover in line with the decline in sector. Decorative business reported double digit volume growth during May and June was encouraging. Decorative business is expected to improve fast compared to other discretionary categories considering lower fears of pandemic in rural areas and festive season ahead.

### Operating performance was below estimate

During the quarter, Gross margin expanded by 340bps to 41.6%. with benign input costs. However, a 620/80bps increase in employee cost/other expenses completely offset GM expansion. Consequently, EBITDA margin contracted at 360bps to 13.5%. EBITDA declined 67.7% YoY to Rs 805mn – came significantly below our estimate. PAT de-grew 71.1% YoY to Rs 423mn – came below our estimate.

Company has launched various products in the mass segment which would help it to improve sales performance in Decorative segment.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	5,980	14,635	(59.1)	9,880	(39.5)
Total Expense	5,175	12,145	(57.4)	8,603	(39.8)
EBITDA	805	2,490	(67.7)	1,278	(37.0)
Depreciation	318	278	14.6	320	(0.7)
EBIT	487	2,212	(78.0)	958	(49.2)
Other Income	79	65	21.8	40	98.7
Interest	13	13	4.8	13	2.3
EBT	553	2,265	(75.6)	985	(43.8)
Tax	126	786	(84.0)	270	(53.4)
RPAT	427	1,479	(71.1)	715	(40.2)
APAT	427	1,479	(71.1)	715	(40.2)
			(bps)		(bps)
Gross Margin (%)	41.6	38.3	339	38.5	317
EBITDA Margin (%)	13.5	17.0	(355)	12.9	53
NPM (%)	7.1	10.1	(296)	7.2	(9)
Tax Rate (%)	22.8	34.7	(1195)	27.4	(466)
EBIT Margin (%)	8.1	15.1	(698)	9.7	(155)

CMP	Rs 443
Target / Upside	Rs 450 / 2%
BSE Sensex	37,710
NSE Nifty	11,102

### Script Details

Equity / FV	Rs 539mn / Rs 1
Market Cap	Rs 239bn
	US\$ 3bn
52-week High/Low	Rs 573/Rs 294
Avg. Volume (no)	270,152
NSE Symbol	KANSAINER
Bloomberg Code	KNPL IN

### Shareholding Pattern Jun'20(%)

Promoters	75.0
MF/Banks/FIs	12.0
FII	4.1
Public / Others	8.9

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	44.6	64.2	44.2
EV/EBITDA	29.9	39.2	27.6
ROE (%)	14.8	9.5	12.9
RoACE (%)	14.6	9.5	12.8

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	49,432	38,557	49,642
EBITDA	7,816	5,796	8,217
PAT	5,354	3,716	5,398
EPS (Rs.)	9.9	6.9	10.0

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**Exhibit 1: Actual V/s DART estimates**

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	5,980	10,252	(41.7)	Impact of coronavirus enforced lockdown was higher than our estimates, mainly in industrial segment
EBITDA	805	1,775	(54.6)	
EBITDA margin %	13.5	17.3	(390)	Variation due to lower sales and negative operating leverage
APAT	427	1,174	(63.6)	Cascading effect of lower Revenue and EBITDA

Source: Company, DART

**Exhibit 2: Change in estimates**

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	38,557	46,960	(17.9)	49,642	54,657	(9.2)
EBITDA	5,796	7,763	(25.3)	8,217	9,320	(11.8)
EBITDA Margin (%)	15.0	16.5	(150bps)	16.6	17.1	(50bps)
PAT	3,716	5,156	(27.9)	5,398	6,206	(13.0)
EPS (Rs)	6.9	9.6	(27.9)	10.0	11.5	(13.0)

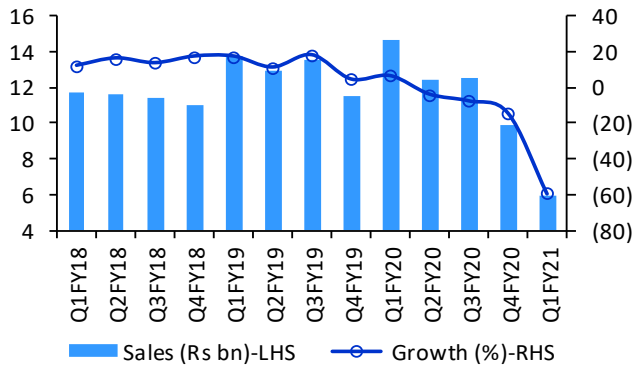
Source: DART, Company

We have revised our FY21E and FY22E revenue estimates to factor in extended lock down in few states and persistent slowdown in the automotive business. We have lowered our EBITDA margin estimates to factor in lower operating leverage due to sales decline. Cut in APAT estimates is in line with reduction in revenue and EBITDA.

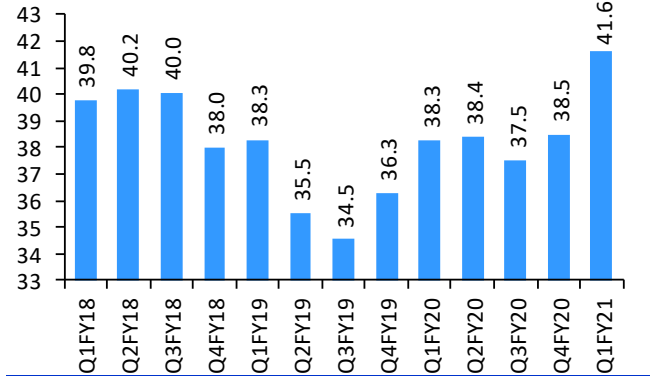
### Concall Highlights

- In Decorative segment, May and June saw faster recovery in demand from smaller towns. July saw recovery on similar lines. In May-June, double digit growth was due to combination of pent up demand and regular demand.
- Metros constitute 30-35% demand of total paint industry, rest comes from Tier I, II and smaller towns. Smaller towns are recovering faster than metros and Tier I due to lesser Covid threat.
- Demand in automotive is weak since 1-2 years. Within Automotive sector, company expects rural to perform better with expected normal monsoon and crop production. Two wheelers and tractors expected to perform better. Passenger vehicles and Commercial vehicles will take longer time to recover.
- Volume growth in Decorative in May-June was led by Enamel, Putty & Primers. Company expects good growth at lower end products to continue. As per management, Metro and Tier 1 have not yet started participating for luxury / premium products to gain traction. It will gradually pick up.
- Contribution of putty and construction chemicals together was 5-10%.
- Capacity utilization last year was ~70%, in June'20 it stood at 50-55% mainly due to lower demand due to lockdown.
- Decline in industrial segment was ~80-85% in Q1FY21.
- Company created Covid fund for helping Corona affected painters, where all painters in industry are covered. PPE kits were distributed to 1 lac painters.

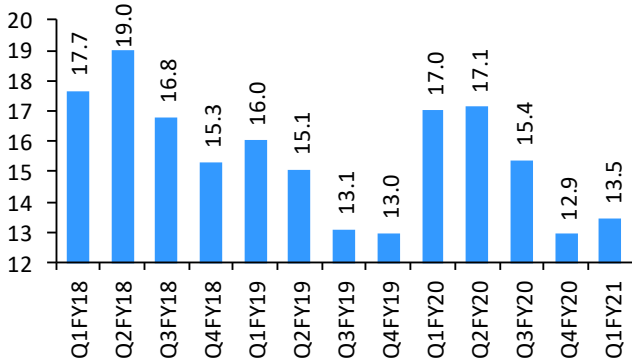
- Company introduced new products like economy emulsions, waterproofing range and unique products in premium category in exterior. It also piloted a disinfectant, a differentiated product. New product contribution generally stands at ~5%.
- Western markets were most impacted, North and East were lesser impacted. Other than West, recovery in all other markets was similar. At paint industry level, 25% Decorative demand is contributed by West. South is largest market, North and West contribution is similar, East contributes the least.
- Currently, number of dealers stand at 25K.
- Company maintains positive but cautious demand outlook. Company will continue working on new initiatives and cost control as demand scenario is uncertain.
- In Automotive demand, recovery seen in MoM basis. Auto refinish business commands market share of 6%.
- In subsidiaries- Marpol, Perma, Nerofix, April was a complete washout. Sales started picking up from in May. In international, Nepal was significantly impacted as lockdown continued from 24th March till 15th June. Bangladesh and Srilanka were relatively better with demand picking up in June.

**Exhibit 3: Sales growth (%)**


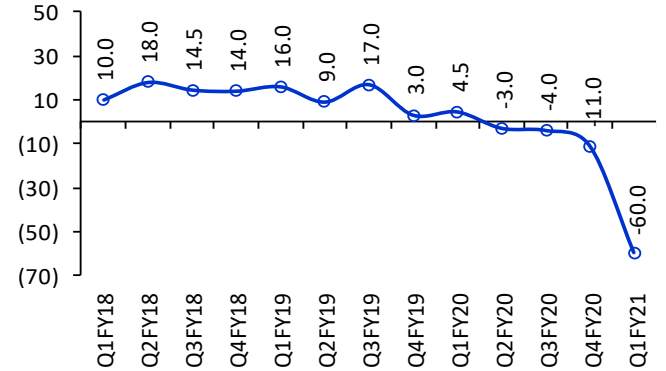
Source: DART, Company

**Exhibit 4: Gross Margin (%)**


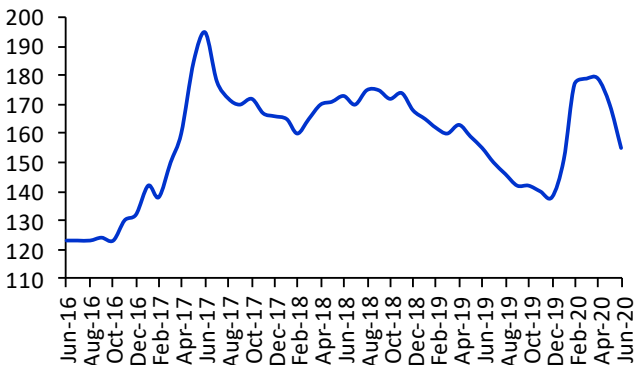
Source: DART, Company

**Exhibit 5: EBITDA margin (%)**


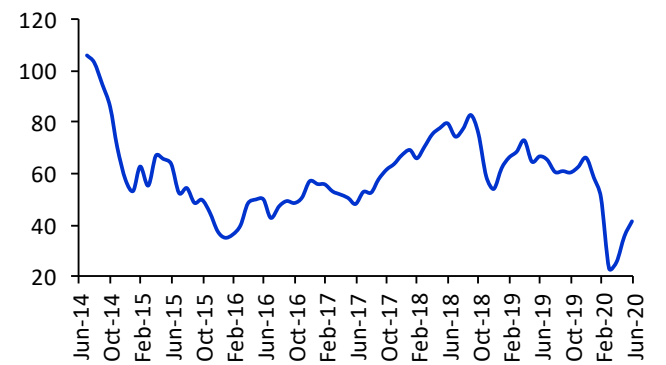
Source: DART, Company

**Exhibit 6: Trend in Volume Growth (%)**


Source: DART, Company (\*Approximate values)

**Exhibit 7: Trend in Titanium Dioxide Price (INR/KG)**


Source: DART, Company

**Exhibit 8: Trend in Brent Price (USD)**


Source: DART, Company

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>51,736</b>	<b>49,432</b>	<b>38,557</b>	<b>49,642</b>
<b>Total Expense</b>	<b>44,316</b>	<b>41,616</b>	<b>32,761</b>	<b>41,425</b>
COGS	33,025	30,576	23,772	30,607
Employees Cost	2,554	2,694	2,680	2,953
Other expenses	8,737	8,346	6,309	7,865
<b>EBIDTA</b>	<b>7,420</b>	<b>7,816</b>	<b>5,796</b>	<b>8,217</b>
Depreciation	905	1,199	1,405	1,557
<b>EBIT</b>	<b>6,515</b>	<b>6,617</b>	<b>4,391</b>	<b>6,660</b>
Interest	0	50	70	70
Other Income	619	269	769	805
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>7,134</b>	<b>6,836</b>	<b>5,090</b>	<b>7,395</b>
Tax	2,461	1,482	1,374	1,997
RPAT	4,673	5,354	3,716	5,398
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>4,673</b>	<b>5,354</b>	<b>3,716</b>	<b>5,398</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	539	539	539	539
Minority Interest	0	0	0	0
Reserves & Surplus	33,705	37,330	39,636	42,986
<b>Net Worth</b>	<b>34,244</b>	<b>37,869</b>	<b>40,174</b>	<b>43,524</b>
Total Debt	97	34	97	97
Net Deferred Tax Liability	1,050	850	850	850
<b>Total Capital Employed</b>	<b>35,391</b>	<b>38,753</b>	<b>41,122</b>	<b>44,472</b>

### Applications of Funds

Net Block	13,157	17,080	18,675	20,118
CWIP	3,147	1,640	1,640	1,640
Investments	1,089	1,500	1,500	1,500
<b>Current Assets, Loans &amp; Advances</b>	<b>25,664</b>	<b>25,253</b>	<b>24,006</b>	<b>27,109</b>
Inventories	10,528	9,301	4,859	6,256
Receivables	6,740	6,745	4,225	5,440
Cash and Bank Balances	814	1,660	8,607	8,946
Loans and Advances	1,585	1,760	528	680
Other Current Assets	4,043	2,736	2,736	2,736
<b>Less: Current Liabilities &amp; Provisions</b>	<b>7,666</b>	<b>6,720</b>	<b>4,700</b>	<b>5,896</b>
Payables	6,310	5,195	3,618	4,575
Other Current Liabilities	1,356	1,525	1,082	1,321
<b>sub total</b>				
Net Current Assets	17,998	18,533	19,306	21,213
<b>Total Assets</b>	<b>35,391</b>	<b>38,753</b>	<b>41,122</b>	<b>44,472</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	36.2	38.1	38.3	38.3
EBIDTA Margin	14.3	15.8	15.0	16.6
EBIT Margin	12.6	13.4	11.4	13.4
Tax rate	34.5	21.7	27.0	27.0
Net Profit Margin	9.0	10.8	9.6	10.9
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	63.8	61.9	61.7	61.7
Employee	4.9	5.4	6.9	5.9
Other	16.9	16.9	16.4	15.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	74	69	46	46
Debtors days	48	50	40	40
Average Cost of Debt	0.0	76.2	106.7	72.1
Payable days	45	38	34	34
Working Capital days	127	137	183	156
FA T/O	3.9	2.9	2.1	2.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	8.7	9.9	6.9	10.0
CEPS (Rs)	10.3	12.2	9.5	12.9
DPS (Rs)	3.1	3.1	2.6	3.8
Dividend Payout (%)	36.1	31.6	37.9	37.9
BVPS (Rs)	63.5	70.3	74.5	80.8
RoANW (%)	14.3	14.8	9.5	12.9
RoACE (%)	13.8	14.6	9.5	12.8
RoAIC (%)	20.6	18.5	12.6	19.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	443	443	443	443
P/E	51.1	44.6	64.2	44.2
Mcap (Rs Mn)	238,642	238,642	238,642	238,642
MCap/ Sales	4.6	4.8	6.2	4.8
EV	235,970	233,966	227,083	226,743
EV/Sales	4.6	4.7	5.9	4.6
EV/EBITDA	31.8	29.9	39.2	27.6
P/BV	7.0	6.3	5.9	5.5
Dividend Yield (%)	0.7	0.7	0.6	0.9
<b>(F) Growth Rate (%)</b>				
Revenue	12.8	(4.5)	(22.0)	28.8
EBITDA	(6.0)	5.3	(25.8)	41.8
EBIT	(8.7)	1.6	(33.6)	51.7
PBT	(9.2)	(4.2)	(25.5)	45.3
APAT	(9.5)	14.6	(30.6)	45.3
EPS	(9.5)	14.6	(30.6)	45.3
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,104	6,412	11,293	5,388
CFI	(2,388)	(5,120)	(3,000)	(3,000)
CFF	(1,511)	(446)	(1,347)	(2,048)
FCFF	(4,129)	2,797	8,293	2,388
Opening Cash	3,609	814	1,660	8,607
Closing Cash	814	1,660	8,607	8,946

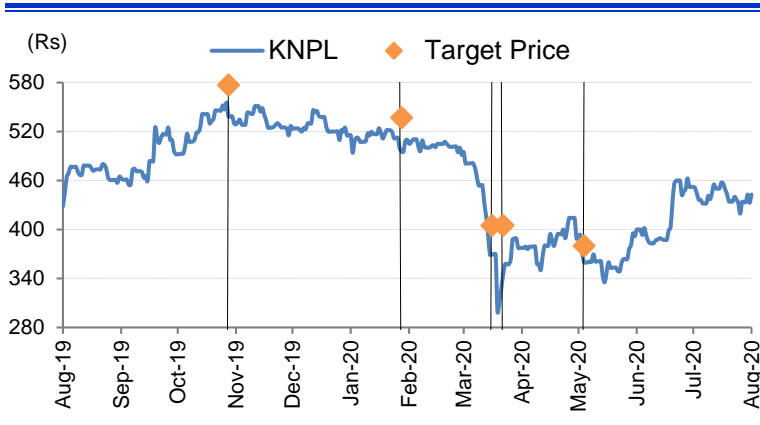
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	577	539
Feb-20	Accumulate	537	495
Mar-20	Accumulate	405	370
Mar-20	Accumulate	405	345
May-20	Reduce	380	360

\*Price as on recommendation date

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