

Accumulate

Strong recovery! Upgrade to Accumulate

- Revenues grew 4.3% YoY to Rs 13.8bn in Q2FY21, in line with market leader. Positive growth in Q2 after double digit decline of 60% in Q1 was encouraging. Growth from smaller towns outpaced metros/tier 1.
- The decorative business witnessed double digit volume growth (~+15%) during the quarter- strong performance as APL reported similar improvement. However, industrial sales continued to remain under pressure, and saw gradual recovery in September'20.
- As RM costs were lower due to fall in crude oil derivatives, GM expanded 90bps in Q2 - fifth consecutive quarter of GM expansion.
- Kansai would benefit from twin tailwinds (1) early signs of demand resurgence in automotive business and (2) favorable base.
- Considering improvement in demand in decorative and automotive business, we have revised our FY21E and FY22E EPS estimates to Rs 8.8 (+27.4%) and Rs 11.3 (+13.3%) and introduced FY23E estimates at Rs 13.3. We value Kansai at 42x FY23E EPS to arrive at a TP of Rs 555. **Upgrade to Accumulate.**

Double digit growth in Decorative; Green shoots in Automotive

During the quarter, Kansai posted double digit volume growth of 15% in the decorative segment. Decorative paint business is expected to gain momentum vs other discretionary categories considering deceleration of fears of pandemic and festive season ahead. Further automotive industry is witnessing early signs of improvement as most of the companies have reported sequential improvement and YoY growth during October'20. Kansai being the leader in automotive paints business would benefit the most with improvement in demand in the industry.

Operating performance was ahead of estimate

Net Sales (consol) increased 4.3% YoY to Rs 13.8bn in Q2FY21. GM expanded by 90bps to 39.3% with benign input costs. Further, a 60/150bps decline in employee cost/other expenses helped EBITDA margin to expand by 290bps to 19.4%. EBITDA increased 22.7% YoY to Rs 2.7bn while RPAT de-grew 11.6% YoY to Rs 1.7bn. Decline in APAT was partially due to reversal of tax expenses in the base quarter.

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

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	13,832	13,256	4.3	6,389	116.5
Total Expense	11,146	11,067	0.7	5,621	98.3
EBITDA	2,686	2,189	22.7	768	249.6
Depreciation	393	338	16.1	379	3.6
EBIT	2,293	1,850	23.9	389	489.4
Other Income	48	43	11.1	82	(41.1)
Interest	54	48	12.2	55	(1.6)
EBT	2,287	1,845	23.9	416	450.3
Tax	607	(54)	(1228.3)	119	409.7
RPAT	1,680	1,899	(11.6)	296	466.7
APAT	1,680	1,899	(11.6)	296	466.7
			(bps)		(bps)
Gross Margin (%)	39.3	38.4	90	41.5	(215)
EBITDA Margin (%)	19.4	16.5	290	12.0	739
NPM (%)	12.1	14.3	(218)	4.6	750
Tax Rate (%)	26.5	(2.9)	2946	28.7	(212)
EBIT Margin (%)	16.6	14.0	262	6.1	1049

CMP	Rs 513
Target / Upside	Rs 555 / 8%
NIFTY	11,814

Scrip Details

Equity / FV	Rs 539mn / Rs 1
Market Cap	Rs 277bn
	USD 4bn
52-week High/Low	Rs 557/ 294
Avg. Volume (no)	2,65,271
Bloom Code	KNPL IN

Price Performance	1M	3M	12M
Absolute (%)	5	19	(3)
Rel to NIFTY (%)	1	12	(3)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	75.0	75.0	75.0
MF/Banks/FIs	13.6	13.6	13.6
FIIIs	3.9	3.9	3.9
Public / Others	7.5	7.5	7.5

Valuation (x)

	FY21E	FY22E	FY23E
P/E	58.4	45.2	38.5
EV/EBITDA	32.8	26.1	22.5
ROE (%)	12.1	14.4	15.5
RoACE (%)	11.6	13.8	14.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	47,520	56,031	61,202
EBITDA	8,107	10,135	11,673
PAT	4,735	6,116	7,189
EPS (Rs.)	8.8	11.3	13.3

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Exhibit 1: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	47,520	38,557	23.2	56,031	49,642	12.9
EBITDA	8,107	5,796	39.9	10,135	8,217	23.3
EBITDA Margin (%)	17.1	15.0	200bps	18.1	16.6	150bps
PAT	4,735	3,716	27.4	6,116	5,398	13.3
EPS (Rs)	8.8	6.9	27.4	11.3	10.0	13.3

Source: DART, Company (Note: We have modelled our estimates on consolidated basis vs standalone earlier)

We have revised our FY21E and FY22E revenue estimates to factor in double digit growth in decorative business and anticipated recovery in automotive and industrial segments. We have revised our EBITDA margin estimates to factor in improved working conditions. In line with the revision in EBITDA, we have revised our APAT estimates.

Exhibit 2: Half yearly performance

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenue	13,832	13,256	4.3	6,389	116.5	20,221	28,680	(29.5)
Total Expenditure	11,146	11,067	0.7	5,621	98.3	16,767	23,954	(30.0)
RM Cost	8,396	8,165	2.8	3,741	124.4	12,137	17,691	(31.4)
Employee Exp	752	793	(5.1)	748	0.6	1,501	1,566	(4.2)
Other Exp	1,998	2,109	(5.3)	1,132	76.5	3,130	4,697	(33.4)
PBIDT (Excl OI)	2,686	2,189	22.7	768	249.6	3,454	4,726	(26.9)
Other Income	48	43	11.1	82	(41.1)	130	111	16.8
Depreciation	393	338	16.1	379	3.6	772	669	15.5
EBIT	2,341	1,894	23.6	471	397.4	2,811	4,168	(32.6)
Interest	54	48	NM	55	(1.6)	109	95	NM
PBT	2,287	1,845	23.9	416	450.3	2,702	4,074	(33.7)
Tax	607	(54)	NM	119	409.7	726	728	(0.2)
RPAT	1,680	1,899	(11.6)	296	466.7	1,976	3,346	(40.9)
APAT	1,680	1,899	(11.6)	296	466.7	1,976	3,346	(40.9)
EPS (Adj)	3.1	3.5	(11.8)	0.6	402.5	3.7	6.2	(40.1)
			bps		bps			bps
Gross Profit (%)	39.3	38.4	90	41.5	(220)	40.0	38.3	170
Employee Exp (%)	5.4	6.0	(50)	11.7	(630)	7.4	5.5	200
Other Exp (%)	14.4	15.9	(150)	17.7	(330)	15.5	16.4	(90)
EBITDA (%)	19.4	16.5	290	12.0	740	17.1	16.5	60
EBIT (%)	16.9	14.3	260	7.4	960	13.9	14.5	(60)
PAT (%) Adj	12.2	14.4	(220)	5.2	690	10.0	11.7	(180)

Source: Company, DART

Concall Highlights

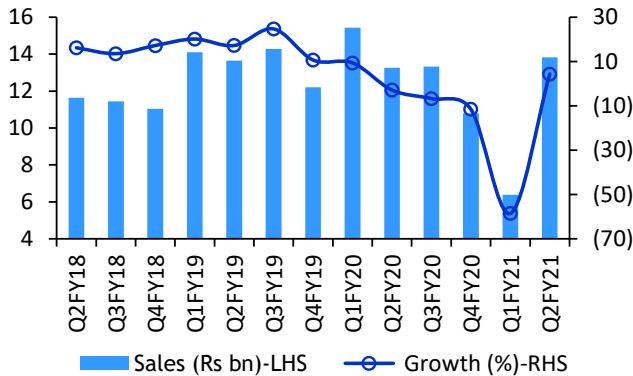
- Decorative business posted value growth of 7% driven by volume growth of +15%. Difference was due to change in discounts and high growth in putty.
- Currently, number of dealers stand at 25K. ~4-5% dealers were added in Q2. The company targets to increase it by 10% every year.
- Construction chemicals account for 20-25% of the total paint industry. Currently, penetration is very low. Margins are similar to paints.
- Kansai's putty contribution is less than 10%. Growth is supported by Tier2/3 towns.
- Metros/ Tier 1 constitute 30-35% demand of total paint industry, balance is from smaller towns. For Kansai, the contribution of metros is slightly lower. Demand in rural and smaller towns is better than metros and Tier I.
- Demand for emulsions is picking up. The popular and economy range of emulsions exhibited very good growth while the premium segment showed muted demand. Industry contribution of premium is 20%, popular range (+50%) and economy range (+30%). Economy range is Rs 100-120/lit. Popular Rs 150-180/lit and premium range is Rs 200+. Margins are broadly similar for all the categories.
- In Q2FY21, passenger vehicles sales was -4%, two wheelers -6% and commercial vehicles was -17%. Automotive exhibited de-growth in Jul-Aug, but witnessed recovery in Sep'20 led by passenger vehicles.
- The company introduced 4-5 new products during Q2. It also launched first antiviral paint "Virus Guard" in September'20.
- In domestic subsidiaries- Marpol (powder coating) and Perma (construction chemicals) recorded good growth in Q2FY21. Nerofix continued to be under stress in Q2 due to slow offtake, especially in the Industrial adhesives space.
- Nepal continued to remain significantly impacted in Q2. Sri Lanka is still under pressure. Bangladesh exhibited high double digit growth.
- Company expects RM prices to firm up in ensuing quarters leading to pressure on margins. A&SP spends were lower in H1. The company will continue marketing spends going ahead, but there is scope of efficiency, as it has been spending higher in last 3-4 years.
- Overall festive demand scenario is positive, as per the management.
- The company expects capex of Rs 1.5-1.75bn in FY21E with 60-70% maintenance capex.

Exhibit 3: Recovery in Automotive Sales

Segment	Total Sales (Domestic + Export)	October 2020 (units)	October 2019 (units)	Change % (YoY)
Passenger Vehicle	Maruti suzuki ltd.	1,82,448	1,53,435	18.9
Passenger Vehicle	M&M (PV)	18,622	18,460	0.9
Passenger Vehicle	TATA Motors (PV)	23,617	13,169	79.0
Two wheelers	Bjaj Auto	4,70,299	3,98,913	17.9
Two wheelers	Hero MotoCorp	8,06,848	5,99,248	34.6
Two wheelers	Eicher (Royal Enfield)	66,891	71,964	(7.0)
Two wheelers	TVS motors	3,94,724	3,23,368	22.0
Tractors	Escorts	13,664	13,353	2.0
Tractors	M&M (Tractor)	46,558	45,433	2.5
Commercial vehicle	Ashok leyland	9,989	9,857	1.3

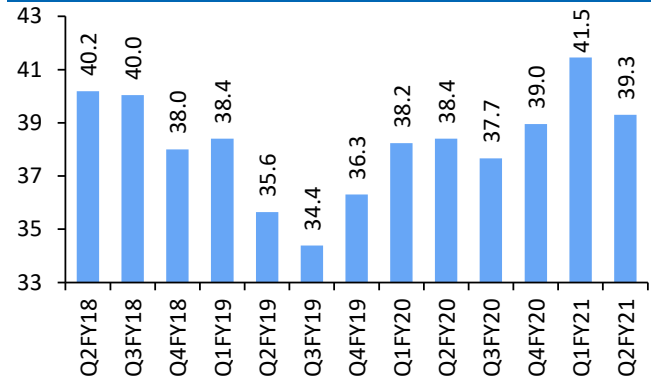
Source: Company, DART

Exhibit 4: Sales growth (%)



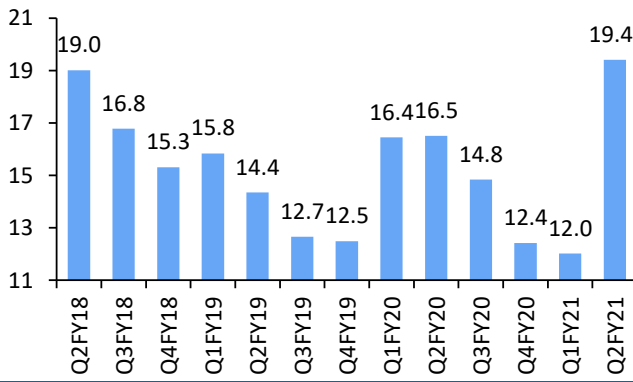
Source: Company, DART

Exhibit 5: Gross Margin (%)



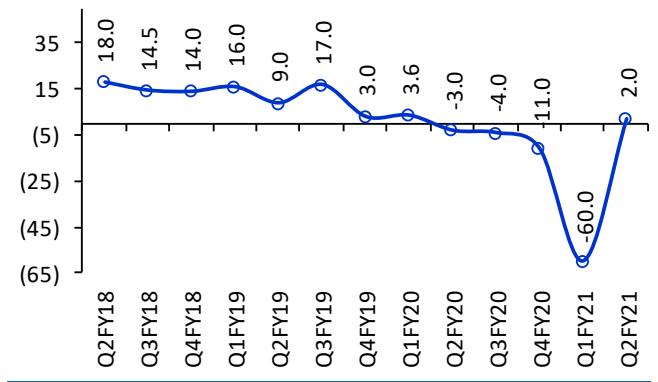
Source: Company, DART

Exhibit 6: EBITDA margin (%)



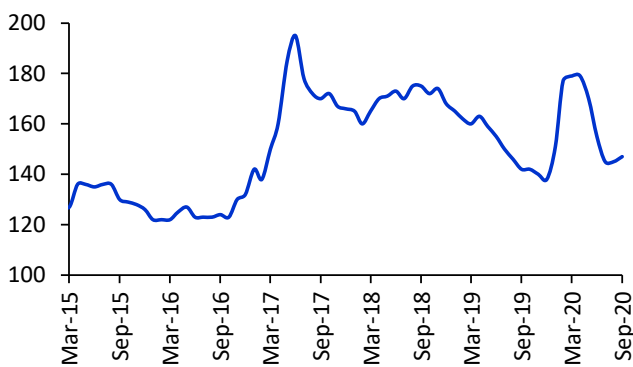
Source: Company, DART

Exhibit 7: Trend in Volume Growth (%)



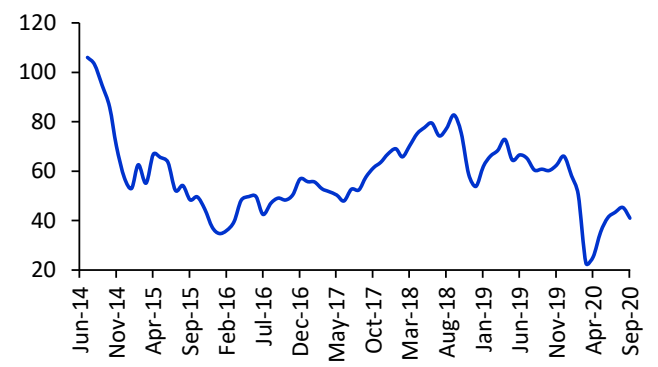
Source: Company, DART (Decorative volume gr. was +15%, industrial business exhibited decline in Q2FY21)

Exhibit 8: Trend in Titanium Dioxide Price (INR/KG)



Source: Company, DART

Exhibit 9: Trend in Brent Price (USD)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	52,800	47,520	56,031	61,202
Total Expense	44,755	39,413	45,896	49,529
COGS	29,023	25,453	30,531	33,609
Employees Cost	3,104	3,140	3,140	2,838
Other expenses	12,629	10,820	12,225	13,082
EBIDTA	8,045	8,107	10,135	11,673
Depreciation	1,421	1,663	1,820	1,977
EBIT	6,623	6,444	8,315	9,697
Interest	209	229	229	229
Other Income	255	273	281	330
Exc. / E.O. items	(67)	0	0	0
EBT	6,603	6,488	8,367	9,798
Tax	1,512	1,810	2,314	2,679
RPAT	5,143	4,735	6,116	7,189
Minority Interest	(52)	(58)	(63)	(70)
Profit/Loss share of associates	0	0	0	0
APAT	5,210	4,735	6,116	7,189

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	539	539	539	539
Minority Interest	217	159	96	26
Reserves & Surplus	37,064	39,967	43,731	48,186
Net Worth	37,603	40,505	44,270	48,724
Total Debt	1,782	1,845	1,845	1,845
Net Deferred Tax Liability	1,081	1,081	1,081	1,081
Total Capital Employed	40,683	43,591	47,292	51,677

Applications of Funds

Net Block	19,064	20,451	21,681	22,755
CWIP	1,691	1,691	1,691	1,691
Investments	171	171	171	171
Current Assets, Loans & Advances	27,910	27,465	30,831	34,644
Inventories	10,084	5,989	7,061	7,713
Receivables	7,870	5,208	6,140	6,707
Cash and Bank Balances	1,920	9,542	10,786	13,310
Loans and Advances	1,961	651	768	838
Other Current Assets	3,187	3,187	3,187	3,187
Less: Current Liabilities & Provisions	8,153	6,187	7,082	7,584
Payables	6,092	4,352	5,068	5,470
Other Current Liabilities	2,061	1,835	2,014	2,114
<i>sub total</i>				
Net Current Assets	19,757	21,278	23,749	27,060
Total Assets	40,683	43,591	47,292	51,677

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	45.0	46.4	45.5	45.1
EBIDTA Margin	15.2	17.1	18.1	19.1
EBIT Margin	12.5	13.6	14.8	15.8
Tax rate	22.9	27.9	27.7	27.3
Net Profit Margin	9.7	10.0	10.9	11.7
(B) As Percentage of Net Sales (%)				
COGS	55.0	53.6	54.5	54.9
Employee	5.9	6.6	5.6	4.6
Other	23.9	22.8	21.8	21.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	70	46	46	46
Debtors days	54	40	40	40
Average Cost of Debt	14.6	12.6	12.4	12.4
Payable days	42	33	33	33
Working Capital days	137	163	155	161
FA T/O	2.8	2.3	2.6	2.7
(D) Measures of Investment				
AEPS (Rs)	9.7	8.8	11.3	13.3
CEPS (Rs)	12.3	11.9	14.7	17.0
DPS (Rs)	2.6	3.4	4.4	5.1
Dividend Payout (%)	27.1	38.7	38.5	38.0
BVPS (Rs)	69.8	75.1	82.1	90.4
RoANW (%)	14.3	12.1	14.4	15.5
RoACE (%)	13.9	11.6	13.8	14.8
RoAIC (%)	17.8	17.7	23.6	25.9
(E) Valuation Ratios				
CMP (Rs)	513	513	513	513
P/E	53.1	58.4	45.2	38.5
Mcap (Rs Mn)	2,76,750	2,76,750	2,76,750	2,76,750
Mcap/ Sales	5.2	5.8	4.9	4.5
EV	2,73,723	2,66,164	2,64,920	2,62,397
EV/Sales	5.2	5.6	4.7	4.3
EV/EBITDA	34.0	32.8	26.1	22.5
P/BV	7.4	6.8	6.3	5.7
Dividend Yield (%)	0.5	0.7	0.8	1.0
(F) Growth Rate (%)				
Revenue	(2.7)	(10.0)	17.9	9.2
EBITDA	6.9	0.8	25.0	15.2
EBIT	2.5	(2.7)	29.0	16.6
PBT	(3.2)	(1.7)	29.0	17.1
APAT	15.1	(9.1)	29.2	17.5
EPS	15.1	(9.1)	29.2	17.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,628	12,442	6,646	8,308
CFI	(3,262)	(3,050)	(3,050)	(3,050)
CFF	(1,407)	(1,770)	(2,352)	(2,734)
FCFF	3,240	9,392	3,596	5,258
Opening Cash	962	1,920	9,542	10,786
Closing Cash	1,920	9,542	10,786	13,310

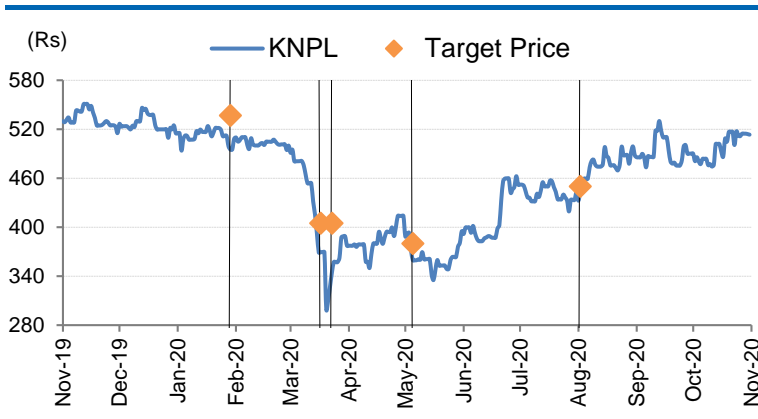
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	537	495
Mar-20	Accumulate	405	370
Mar-20	Accumulate	405	345
May-20	Reduce	380	360
Aug-20	Reduce	450	443

*Price as on recommendation date

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