

Retail Equity Research

Kansai Nerolac Paints Ltd

Paints

BSE CODE : 500165 NSE CODE: KANSAINER
BLOOMBERG CODE: KNPL:IN SENSEX : 60,298

Accumulate

12Months Investment Period Rating as per Mid Cap

CMP Rs. 506 TARGET Rs. 567 RETURN 12% ↑
(Closing: 18-08-22)

Demand revival drive top-line...

Kansai Nerolac Paints (KNPL) is the market leader in the industrial paints and third largest decorative paint company in India.

- In Q1FY23, revenue grew by 46% YoY led by high double digit volume growth, 20%+ in decorative and ~30% in industrial & automotive paints.
- However, gross margin declined by 460bps YoY to 29.9% due to inflation in input prices, while EBITDA margin contracted by 115bps YoY.
- During the quarter, raw material price were increased by 7% but KNPL took only a price hike of 2% and in coming quarter the management to take price hike in industrial segment.
- KNPL has expanded its reach in institutional business in metros and Tier 1 cities, which could strengthen its premium paints.
- Ease in shortage of semiconductor chips and more than 50% market share in auto business to support the revenue visibility.
- We therefore we reiterate Accumulate rating and value KNPL at 40x on FY24E EPS with a target price of Rs. 567.

Industrial segment picking up...

The company reported a healthy revenue growth of 46.2% to Rs. 2,051cr during Q1FY23 led by strong volume/realisation growth of 24%/22% respectively. The industrial growth is slightly higher than decorative growth. During the quarter, raw material price was increased by 7% but KNPL took only a price hike of 2% and in coming quarter the management to take price hike in industrial segment. There is a revival in demand in the industrial segment as semiconductor shortage issue is easing in the automotive industry. KNPL has exited low margin industrial paints and focusing to add more premium paints. We expect revival in passenger vehicle sales and strong demand momentum in industrial segment to drive top-line (45% of top-line). Further, higher demand for decorative paints from metros and Tier1/2 and improving product mix will aid growth.

Margin pressure to ease...

KNPL's gross margin declined by 430bps YoY to 29.9% due to higher raw material price. While EBITDA margin declined by 115bps YoY to 12.4% in Q1FY23 on account of higher other expenses (30% YoY). During the quarter, the company took a price hike of 2% while raw material price increased by 7%. We expect some ease in margin pressure in coming quarters due to fall in oil prices and improving product mix.

Key highlights...

- In the decorative business, Tier1/2 cities contribute 40% of the revenue while rural area contribute 60%.
- KNPL is exiting low margin industrial paints and moving towards high technology & premium products.
- Strong distribution network of 28,000 dealers across the country and the focus is to increase the dealers in metros.

Valuation and Outlook

Increasing demand outlook for auto with improve chip availability and 50% increase in super premium decorative paints distribution will colour the top-line. We expect KNPL's revenue to grow at a CARG of 15.5% over FY22-FY24E. We therefore, reiterate Accumulate rating with a target price of Rs. 567, based on a P/E of 40x on FY24E EPS.

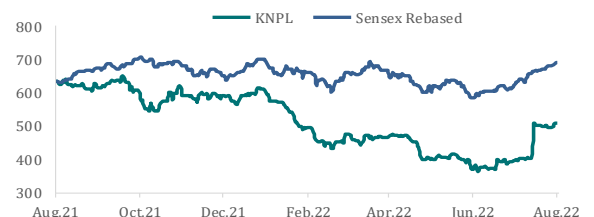
Company Data

Market Cap (cr)	₹ 29,102
Enterprise Value (cr)	₹ 28,398
Outstanding Shares (cr)	53.9
Free Float (%)	25.0%
Dividend Yield (%)	0.97%
52 week high	₹ 674
52 week low	₹ 358
6m average volume (cr)	0.65
Beta	0.89
Face value	₹ 1

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23
Promoters	74.99	75.0	75.0
FII's	3.6	3.6	3.3
MFs/Insti	13.2	13.2	13.4
Public	8.3	8.3	8.4
Total	100	100	100
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	27%	27%	27%
Absolute Sensex	11%	11%	11%
Relative Return*	16%	-2%	-29%

over or under performance to benchmark index



Consolidated (cr)	FY22	FY23E	FY24E
Sales	6,369	7,516	8,493
Growth (%)	25.5	18.0	13.0
EBITDA	649	1,015	1,223
EBITDA Margins (%)	10.2	13.5	14.4
PAT Adj.	343	604	764
Growth (%)	-34.7	76.2	26.3
Adj.EPS	6.4	11.2	14.2
Growth (%)	-34.7	76.2	26.3
P/E	79.5	45.1	35.7
P/B	6.6	6.0	5.3
EV/EBITDA	41.8	26.6	21.9
ROE (%)	8.4	13.9	15.7
D/E	0.1	0.0	0.0

Antu Eapen Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr	Q1FY23	Q1FY22	YoY Growth (%)	Q4FY22	QoQ Growth (%)
Sales	2,051	1,403	46.2	1,537	33.5
EBITDA	255	191	33.9	84	203.9
EBITDA margins (%)	12.4	13.6	-115bps	5.5	697bps
Depreciation	43	42	3.4	43	0.2
EBIT	212	149	42.4	41	418.4
Interest	8	7	27.5	8	8.6
Other Income	5	10	-51.4	-1.0	-597.9
Exceptional Items	-	-	0.0	-	0.0
PBT	208	152	36.9	32	549.0
Tax	56	41	38.1	13	335.0
Reported PAT	152	111	36.5	19	693.2
Adjustments	-	-	0.0	-	0.0
Adj PAT	152	111	36.5	19	693.2
No. of Shares	54	54		54	
EPS (Rs)	3	2	36.5	0	693.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	6,616	7,609	7,516	8,493	14	12
EBITDA	1,059	1,271	1,015	1,223	-4	-4
Margins (%)	16.0	16.7	13.5	14.4	-251bps	-230bps
Adj. PAT	662	815	604	764	-9	-6
EPS	12	15	11	14	-7	-6

Consolidated Financials

PROFIT & LOSS

YE March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	5,280	5,074	6,369	7,516	8,493
% change	-2.7	-3.9	25.5	18.0	13.0
EBITDA	804	863	649	1,015	1,223
% change	6.9	7.3	-24.8	56.3	20.5
Depreciation	142	165	170	192	199
EBIT	662	698	480	823	1024
Interest	21	24	29	29	28
Other Income	24	38	25	40	50
PBT	666	712	476	834	1,046
% change	-4.2	7.1	-33.1	75.0	25.5
Tax	151	187	133	229	282
Tax Rate (%)	23	26	28	28	27
Reported PAT	516	526	343	604	764
Adj*	1.4	0.0	0.0	0.0	0.0
Adj PAT	514	526	343	604	764
% change	15.4	2.2	-34.7	76.2	26.3
No. of shares (cr)	54	54	54	54	54
Adj EPS (Rs.)	9.6	9.8	6.4	11.2	14.2
% change	15	2	-35	76	26
DPS (Rs.)	3.1	3.1	3.1	3.1	3.1

CASH FLOW

YE March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	658	691	513	796	963
Non-cash adj.	-16	24	41	14	18
Changes in W.C	-57	-79	-474	-698	-481
C.F. Operation	595	646	81	113	499
Capital exp.	-242	-104	-197	53	-70
Change in inv.	-87	-346	458	-100	-100
Other invest.CF	-6	-3	-13	15	10
C.F - Investment	-376	-453	249	-32	-160
Issue of equity	0	0	0	0	0
Issue/repay debt	45	-9	36	-20	-20
Dividends paid	-170	-239	-169	-169	-169
Other finance.CF	72	75	-215	145	-28
C.F - Finance	-53	-173	-348	-44	-216
Chg. in cash	166	20	-19	37	123
Closing cash	104	125	106	143	266

BALANCE SHEET

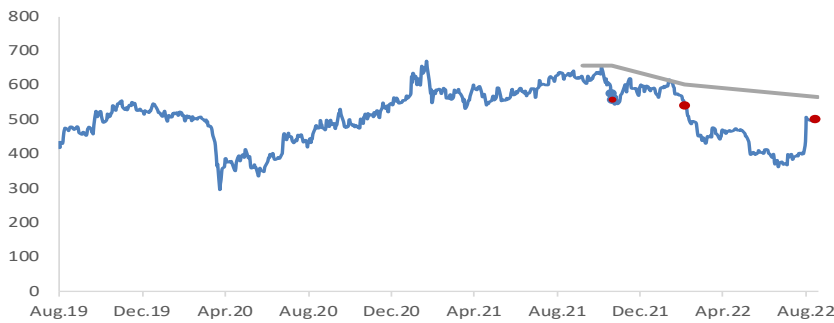
YE March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	192	125	106	143	266
Accounts Receivable	822	956	1,093	1,338	1,582
Inventories	1,008	1,198	1,630	1,971	2,286
Other Cur. Assets	196	224	192	329	419
Investments	306	669	211	311	411
Gross Fixed Assets	2,782	2,730	2,922	2,982	3,052
Net Fixed Assets	1,831	1,852	1,950	1,643	1,514
CWIP	169	207	225	100	100
Intangible Assets	75	60	47	58	58
Def. Tax (Net)	30	-	-	-	-
Other Assets	319	242	257	319	361
Total Assets	4,948	5,533	5,709	6,213	6,997
Current Liabilities	791	1,168	1,248	1,332	1,536
Provisions	0	-	-	-	-
Debt Funds	237	167	203	183	163
Other Liabilities	160	145	126	130	135
Equity Capital	54	54	54	54	54
Reserves & Surplus	3,706	3,999	4,078	4,514	5,109
Shareholder's Fund	3,760	4,053	4,132	4,568	5,163
Total Liabilities	4,948	5,533	5,709	6,213	6,997
BVPS (Rs.)	69	74	76	84	95

RATIOS

YE March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	15.2	17.0	10.2	13.5	14.4
EBIT margin (%)	12.5	13.8	7.5	10.9	12.1
Net profit mgn.(%)	9.7	10.4	5.4	8.0	9.0
ROE (%)	14.3	13.5	8.4	13.9	15.7
ROCE (%)	11.0	13.4	8.7	10.1	11.5
W.C & Liquidity					
Receivables (days)	55.4	63.9	58.7	59.0	62.8
Inventory (days)	73.3	79.4	81.0	87.4	91.5
Payables (days)	82.6	40.8	8.1	41.7	73.1
Current ratio (x)	2.7	2.4	2.2	2.7	2.9
Quick ratio (x)	1.1	0.8	0.8	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	2.1	1.8	2.3	2.5	2.8
Total asset T.O (x)	1.1	1.0	1.1	1.3	1.3
Int. coverage ratio (x)	31.7	29.4	16.8	28.4	37.0
Adj. debt/equity (x)	0.1	0.0	0.1	0.0	0.0
Valuation					
EV/Sales (x)	5.1	5.3	4.3	3.6	3.2
EV/EBITDA (x)	33.6	30.9	41.8	26.6	21.9
P/E (x)	53.0	51.9	79.5	45.1	35.7
P/BV (x)	7.3	6.7	6.6	6.0	5.3



Recommendation Summary (Last 3 years)



Dates	Rating	Target
25-Oct-2021	Buy	657
07-Feb-2022	Accumulate	604
19-Aug-2022	Accumulate	567

Source: Bloomberg, Geojit Research.

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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