

November 3, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	563		558	
Sales (Rs. m)	82,697	93,467	82,697	93,467
% Chng.	-	-	-	-
EBITDA (Rs. m)	11,645	14,636	12,306	14,636
% Chng.	(5.4)	-	-	-
EPS (Rs.)	14.0	18.1	15.1	18.3
% Chng.	(7.4)	(1.1)	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	59,489	73,944	82,697	93,467
EBITDA (Rs. m)	6,605	9,894	11,645	14,636
Margin (%)	11.1	13.4	14.1	15.7
PAT (Rs. m)	3,989	6,208	7,525	9,728
EPS (Rs.)	7.4	11.5	14.0	18.1
Gr. (%)	(26.3)	55.6	21.2	29.3
DPS (Rs.)	5.2	2.0	5.0	6.0
Yield (%)	1.1	0.4	1.1	1.3
RoE (%)	9.7	14.0	15.3	17.7
RoCE (%)	12.3	18.6	20.0	23.1
EV/Sales (x)	4.2	3.2	2.9	2.5
EV/EBITDA (x)	37.5	24.3	20.5	16.0
PE (x)	62.8	40.3	33.3	25.7
P/BV (x)	6.0	5.3	4.8	4.3

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.630 / Rs.358
Sensex / Nifty	60,836 / 18,053
Market Cap	Rs.250bn/ \$ 3,020m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.207.64m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	3.45
Domestic Institution	13.27
Public & Others	8.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.9)	-	(18.5)
Relative	(12.1)	(6.4)	(19.9)

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Margin pressures continues as mix worsens

Quick Pointers:

- 2Q decorative volumes flat
- KNPL has taken 3% price hike in 1H23
- Adds 3k outlets in 1H23

We are cutting our FY23/24/FY25 EPS estimates by 5.9%/7.4%/1.1% on volatile RM environment and delay in gross margin recovery. 2Q margins were impacted by seasonal downtrading & extended rains which hampered demand. Worst seems over given 1) Repositioning of Nerolac products as Paint + 2) exit from low margin segments & further premiumisation in Industrial paints 3) focus on increasing direct distribution for decorative paints and market development in B2B segments 4) Further price hikes expected in 2H23 both in industrial 5) Strong outlook for auto paints given pent up demand and easing semiconductor shortage and 6) strong demand in non-auto industrial paints in powder coatings, infra coatings, metros & other industrial segments.

We expect QoQ gross margins improvement from 4Q23, although volatility in commodity prices remains a key factor to watch out for. We estimate PAT CAGR of 36.1% over FY22-25 on a depleted base and value the stock at 35x Sept24 EPS assigning a TP of Rs 563 (Rs523 earlier). Incremental market share loss and aggressive entry by Grasim in decorative paints remains a key risk to our call. Accumulate.

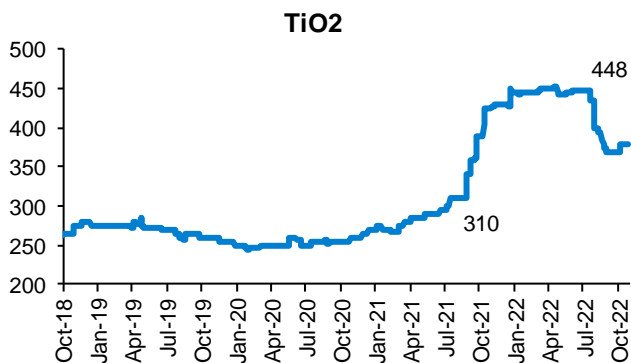
Revenues up 19.3%; Gross margins contracts YoY/QoQ: Revenues grew by 19.3% YoY to Rs18.1bn (PLe: Rs20.2bn). Gross margins contracted by 32bps/132bps YoY/QoQ to 28.6% (PLe: 31.3%). EBITDA grew by 19.8% YoY to Rs2bn (PLe: Rs3.0bn); Margins expanded by 5bps YoY and contracts 227bps QoQ to 10.9% (PLe:14.7%). Adjusted PAT grew by 19% YoY to Rs1.2bn (PLe: Rs1.9bn). Demand for Auto was positive with ease in supply chain challenges while Decorative was subdued due to extended rains. Input prices saw gradual cooling as the quarter progressed. Price hikes taken prices in Decorative and Industrial in 2Q23. Co remains in discussion with OEMs for further price hikes.

Concall Highlights: 1) Metros continue to grow ahead with catch up in T2/3. 2) Growth led by South followed by North, West and East. 3) Inflation ranges between 7-8% vs prices hike of 3% in 1H. 4) Management expects 200bps margin improvement in FY24. 5) Downtrading witnessed from popular to economy range due to 23-24% price increase over 2-year period. 6) Increased distribution with addition of 3k outlets in 1H23. 7) Increased share/salience in super premium decorative products by 2%. 8) Expect increase in decorative ad spends to maintain SOV a 15%. 9) Mix deterioration in 2Q is a seasonal phenomenon 10) Received price hikes from select OEMs in auto with discussions underway. 11) Auto segment was led by 20%+ growth in PV.

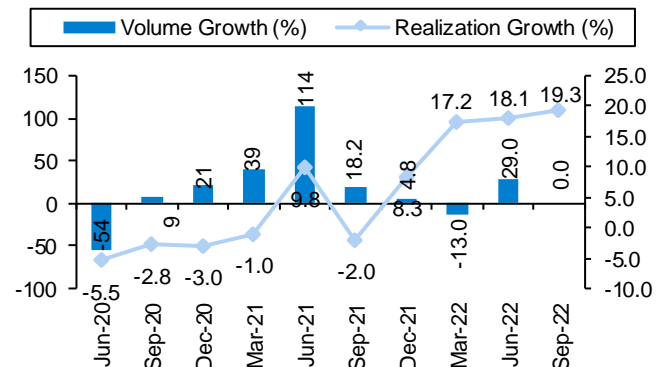
Exhibit 1: Sales grew 19.3% YoY; EBITDA Margins stable YoY at 10.9%

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Total Revenue	18,143	15,207	19.3	19,446	37,588	28,424	32.2
Gross Profit	5,188	4,397	18.0	5,817	11,005	8,934	23.2
% of NS	28.6	28.9		29.9	29.3	31.4	
Other Expenses	3,215	2,751	16.9	3,261	6,476	5,391	20.1
% of NS	17.7	18.1		16.8	17.2	19.0	
EBITDA	1,973	1,647	19.8	2,556	4,529	3,544	27.8
Margins (%)	10.9	10.8		13.1	12.0	12.5	
Depreciation	412	380	8.5	393	805	758	6.3
Interest	25	23		23	48	50	
PBT from operations	1,536	1,244	23.5	2,140	3,676	2,737	34.3
Other Income	35	62	(43.2)	44	79	159	(50.3)
PBT	1,572	1,306	20.3	2,184	3,756	2,896	29.7
Tax	399	321	24.5	555	954	722	32.1
Tax rate (%)	25.4	24.5	0.8	25.4	25.4	24.9	0.5
Adjusted PAT	1,173	985	19.0	1,629	2,802	2,174	28.9

Source: Company, PL

Exhibit 2: 1Q23 TiO2 prices up 21.6% YoY, -10.4% QoQ


Source: Company, PL

Exhibit 3: Flat volumes in decorative paints


Source: Company, PL

Exhibit 4: Subsidiaries saw double digit growth across markets

Nepal	Bangladesh	Sri Lanka
<ul style="list-style-type: none"> • Net Sales grew by double digit for Q2 • Economy exterior primer launched in Q2 • Liquidity crunch non-disbursement loans and adverse foreign exchange situation affected growth 	<ul style="list-style-type: none"> • Net Sales grew by more than 20% • Price increase taken on select range of Marine, Epoxy and decorative products 	<ul style="list-style-type: none"> • Net Sales grew more than 50 % • Margin Improvement Witnessed • New Products Launched

Source: Company, PL

Exhibit 5: Domestic subsidiaries grow 40%+ in 2Q

Nerofix (Adhesives)

- Net sales grew by more than 40 %
- Key raw materials prices showing downward trend from September 22

Source: Company, PL

Exhibit 6: New products launched in 1H23

New Product Launched in H1

True sheen
Exterior Emulsion



Impressions

Kashmir



Epoxy Primer



Premium Primer Nxt- Range



Nerolac-TermiProtect



Nerolac-Perma-Tile Adhesive



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	59,489	73,944	82,697	93,467
YoY gr. (%)	24.7	24.3	11.8	13.0
Cost of Goods Sold	41,293	51,480	55,919	60,324
Gross Profit	18,196	22,464	26,778	33,142
Margin (%)	30.6	30.4	32.4	35.5
Employee Cost	3,124	3,327	3,556	4,019
Other Expenses	5,235	5,694	6,616	8,132
EBITDA	6,605	9,894	11,645	14,636
YoY gr. (%)	(21.7)	49.8	17.7	25.7
Margin (%)	11.1	13.4	14.1	15.7
Depreciation and Amortization	1,538	1,672	1,817	1,962
EBIT	5,067	8,222	9,828	12,674
Margin (%)	8.5	11.1	11.9	13.6
Net Interest	99	110	132	157
Other Income	329	185	360	484
Profit Before Tax	5,297	8,297	10,056	13,000
Margin (%)	8.9	11.2	12.2	13.9
Total Tax	1,308	2,088	2,531	3,272
Effective tax rate (%)	24.7	25.2	25.2	25.2
Profit after tax	3,989	6,208	7,525	9,728
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,989	6,208	7,525	9,728
YoY gr. (%)	(26.3)	55.6	21.2	29.3
Margin (%)	6.7	8.4	9.1	10.4
Extra Ord. Income / (Exp)	(114)	-	-	-
Reported PAT	3,875	6,208	7,525	9,728
YoY gr. (%)	(27.0)	60.2	21.2	29.3
Margin (%)	6.5	8.4	9.1	10.4
Other Comprehensive Income	25	-	-	-
Total Comprehensive Income	3,900	6,208	7,525	9,728
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	7.4	11.5	14.0	18.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	28,609	31,358	33,868	36,378
Tangibles	28,148	30,887	33,387	35,887
Intangibles	460	470	480	490
Acc: Dep / Amortization	11,501	12,846	14,308	15,880
Tangibles	11,134	12,461	13,905	15,462
Intangibles	367	386	403	418
Net fixed assets	17,108	18,511	19,560	20,497
Tangibles	17,015	18,427	19,482	20,425
Intangibles	94	85	78	72
Capital Work In Progress	2,239	2,000	2,000	2,000
Goodwill	2	-	-	-
Non-Current Investments	1,046	1,057	1,068	1,081
Net Deferred tax assets	(956)	(1,003)	(1,053)	(1,106)
Other Non-Current Assets	3,850	3,153	3,475	3,904
Current Assets				
Investments	2,095	7,963	9,719	13,220
Inventories	15,315	13,224	14,801	15,802
Trade receivables	9,654	11,071	11,940	13,242
Cash & Bank Balance	806	2,101	2,501	2,975
Other Current Assets	1,551	1,996	2,233	2,524
Total Assets	53,957	61,151	67,381	75,339
Equity				
Equity Share Capital	539	539	539	539
Other Equity	41,170	46,301	51,131	57,626
Total Networkth	41,709	46,840	51,670	58,165
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	223	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,904	10,811	11,743	12,668
Other current liabilities	1,307	1,414	1,586	1,792
Total Equity & Liabilities	53,957	61,151	67,381	75,339

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,165	8,297	10,056	13,000
Add. Depreciation	1,538	1,672	1,817	1,962
Add. Interest	99	110	132	157
Less Financial Other Income	329	185	360	484
Add. Other	(38)	735	(38)	(109)
Op. profit before WC changes	6,764	10,813	11,966	15,010
Net Changes-WC	(212)	(3,266)	(3,344)	(4,974)
Direct tax	(1,308)	(2,088)	(2,531)	(3,272)
Net cash from Op. activities	5,244	5,459	6,092	6,764
Capital expenditures	(2,567)	(2,834)	(2,865)	(2,900)
Interest / Dividend Income	-	-	-	-
Others	113	-	-	-
Net Cash from Invt. activities	(2,454)	(2,834)	(2,865)	(2,900)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(2,829)	(1,078)	(2,695)	(3,234)
Interest paid	(99)	(110)	(132)	(157)
Others	-	-	-	-
Net cash from Fin. activities	(2,928)	(1,188)	(2,826)	(3,391)
Net change in cash	(139)	1,437	400	474
Free Cash Flow	2,677	2,625	3,227	3,864

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	16,588	14,128	19,446	18,143
YoY gr. (%)	12.6	4.2	47.1	19.3
Raw Material Expenses	11,627	10,177	13,629	12,955
Gross Profit	4,961	3,952	5,817	5,188
Margin (%)	29.9	28.0	29.9	28.6
EBITDA	1,751	829	2,556	1,973
YoY gr. (%)	(39.6)	(59.9)	34.7	19.8
Margin (%)	10.6	5.9	13.1	10.9
Depreciation / Depletion	390	391	393	412
EBIT	1,361	438	2,164	1,561
Margin (%)	8.2	3.1	11.1	8.6
Net Interest	23	26	23	25
Other Income	93	76	44	35
Profit before Tax	1,432	488	2,184	1,572
Margin (%)	8.6	3.5	11.2	8.7
Total Tax	370	129	555	399
Effective tax rate (%)	25.8	26.4	25.4	25.4
Profit after Tax	1,062	359	1,629	1,173
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,062	359	1,629	1,173
YoY gr. (%)	(47.4)	(72.0)	37.0	19.0
Margin (%)	6.4	2.5	8.4	6.5
Extra Ord. Income / (Exp)	262	(114)	-	-
Reported PAT	1,324	245	1,629	1,173
YoY gr. (%)	(34.4)	(80.9)	37.0	13.1
Margin (%)	8.0	1.7	8.4	6.5
Other Comprehensive Income	(2)	31	3	4
Total Comprehensive Income	1,322	276	1,632	1,176
Avg. Shares O/s (m)	539	-	539	539
EPS (Rs)	2.0	-	3.0	2.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	11.5	14.0	18.1
CEPS	10.3	14.6	17.3	21.7
BVPS	77.4	86.9	95.9	107.9
FCF	5.0	4.9	6.0	7.2
DPS	5.2	2.0	5.0	6.0
Return Ratio(%)				
RoCE	12.3	18.6	20.0	23.1
ROIC	10.0	18.0	19.9	24.5
RoE	9.7	14.0	15.3	17.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	99	67	66	64
Valuation(x)				
PER	62.8	40.3	33.3	25.7
P/B	6.0	5.3	4.8	4.3
P/CEPS	10.3	14.6	17.3	21.7
EV/EBITDA	37.5	24.3	20.5	16.0
EV/Sales	4.2	3.2	2.9	2.5
Dividend Yield (%)	1.1	0.4	1.1	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Volume Gr %	21.0	9.0	11.0	12.0
Gross Margins %	30.6	30.4	32.4	35.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Accumulate	558	495
2	03-Aug-22	Accumulate	558	499
3	07-Jul-22	BUY	513	396
4	12-May-22	BUY	518	398
5	08-Apr-22	BUY	675	464
6	04-Feb-22	BUY	651	541
7	06-Jan-22	BUY	707	596
8	13-Dec-21	BUY	707	597

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	3,141
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,026	3,769
4	Colgate Palmolive	Accumulate	1,639	1,605
5	Dabur India	Accumulate	615	549
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,798	2,654
8	ITC	Accumulate	365	350
9	Jubilant FoodWorks	BUY	688	615
10	Kansai Nerolac Paints	Accumulate	558	495
11	Marico	Hold	523	527
12	Mold-tek Packaging	Accumulate	898	858
13	Nestle India	Accumulate	20,111	19,388
14	Pidilite Industries	Hold	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	847	719

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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