Kansai Nerolac

Broadly in-line

Kansai Nerolac's (KNPL) standalone revenue grew 13.6% to INR 16.1bn (four-year CAGR: 9%; HSIE: INR16.2bn). The industrial segment continues to drive performance, backed by strong automotive demand. KNPL's decorative market share is estimated at 9-10%; it has lost its share in the past three years. Management intends to fix this by filling up white spaces in the portfolio via its new premium product (paint + range). GM expanded 359/136bps YoY/QoQ to 31.6% as (1) previous price hikes caught up with RM inflation (esp on the industrial side); (2) there is rising salience of premium products in the mix; and (3) input costs are moderating. Despite the sequential GM improvement, EBITDAM declined 148bps as management flexed the marketing lever to gain lost ground in the decorative segment (EBITDAM: 9.5% vs HSIE: 9.7%). We reduce FY24/25 EPS estimates by 3.3/4.1% to account for higher marketing spending needed to fend off competition and regain market share in decorative. Maintain our BUY rating with an unchanged DCF-based TP of INR500/sh (implying 32x Jun-25 P/E).

- **Q4FY23 highlights**: Standalone revenue grew at 13.6% YoY in Q4 (INR16.1bn, 4-year CAGR: 9%; HSIE: INR16.2bn; consolidated revenue was up 12.8% YoY to INR17.3bn). KNPL's decorative market share is estimated at 9-10% and the company has lost share in the past three years. Management intends to fix this by filling up white spaces in the portfolio via its new premium product (paint + range). New products continue to grow in salience (now account for 7-8% of sales). In decorative, management intends to step up the pace of distribution growth (from its typical 8-10% annual run rate). Industrial paints' performance was broad-based with strong growth and market share gain in automotive (healthy double-digit growth YoY). GMs expanded 359/136bps YoY/QoQ to 31.6% as (1) previous price hikes caught up with RM inflation (esp on the industrial side); (2) there is rising salience of premium products in the mix, (3) input costs are moderating. Despite the sequential GM improvement, EBITDAM declined 148bps as management flexed the marketing lever to gain lost ground in the decorative segment (EBITDAM: 9.5% vs HSIE: 9.7%). EBITDA grew 84% YoY to INR1.52bn (HSIE: INR1.57bn). APAT grew 2.6x YoY (on a low base) to INR940mn (HSIE: INR 878mn).
- **Outlook:** Competition is likely to intensify courtesy new entrant (Grasim) in the high-margin decorative segment. This warrants higher marketing spending. We reduce our FY24/25 EPS estimates by 3.3/4.1% to account for that. Maintain BUY with a DCF-based TP of INR500/sh (implying 32x Jun-25 P/E).

Quarterly financial summary (consolidated)

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22E	FY23E	FY24E	FY25E
Net Revenue	17,336	15,366	*12.8*	18,268	*(5.1)*	63,694	75,427	84,279	94,079
EBITDA	1,681	839	*100.3*	1,955	*(14.0)*	6,494	8,180	10,486	12,275
APAT	962	192	*402.0*	1,090	*(11.7)*	3,432	4,685	6,315	7,521
EPS (Rs)	1.8	0.4	*402.0*	2.0	*(11.7)*	6.4	8.7	11.7	14.0
P/E (x)						59.7	43.7	32.4	27.2
EV/EBITDA (x)						31.7	25.1	19.4	16.4
Core RoCE(%)						8.1	10.5	13.2	14.9

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY23			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	75,427	75,412	*0.0*	84,279	84,265	*0.0*	94,079	94,063	*0.0*
Gross Profit	22,785	22,777	*0.0*	27,773	27,769	*0.0*	32,072	32,066	*0.0*
Gross Profit Margin(%)	30.2	30.2	***0 bps***	33.0	33.0	***0 bps***	34.1	34.1	***0 bps***
EBITDA	8,180	8,508	*(3.9)*	10,486	10,898	*(3.8)*	12,275	12,829	*(4.3)*
EBITDA margin (%)	10.8	11.3	***(44 bps)***	12.4	12.9	***(49 bps)***	13.0	13.6	***(59 bps)***
APAT	4,685	4,861	*(3.6)*	6,315	6,531	*(3.3)*	7,521	7,839	*(4.1)*
APAT margin (%)	6.2	6.4	***(24 bps)***	7.5	7.8	***(26 bps)***	8.0	8.3	***(34 bps)***
EPS (Rs)	8.7	9.0	*(3.6)*	11.7	12.1	*(3.3)*	14.0	14.5	*(4.1)*

Source: Company, HSIE Research, Standalone Financials

BUY

CMP *(as on 10 May 23)*	**INR 405**
Target Price	**INR 500**
NIFTY	**18,315**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 500	INR 500
EPS %	FY24E	FY25E
	-3.3	-4.1

KEY STOCK DATA	
Bloomberg code	KNPL IN
No. of Shares (mn)	539
MCap (INR bn) / ($ mn)	218/2,668
6m avg traded value (INR mn)	83
52 Week high / low	INR 536/358

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(3.5)	(8.7)	(6.1)
Relative (%)	(5.5)	(10.8)	(20.0)

SHAREHOLDING PATTERN (%)	**Dec-22**	**Mar-23**
Promoters	74.99	74.99
FIs & Local MFs	5.70	5.06
FPIs	3.32	3.88
Public & Others	15.99	16.07
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Disclosure:
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