

May 9, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	486		485	
Sales (Rs. m)	78,550	86,942	78,550	86,942
% Chng.	-	-	-	-
EBITDA (Rs. m)	11,366	12,589	11,802	13,443
% Chng.	(3.7)	(6.4)	-	-
EPS (Rs.)	14.2	16.2	14.3	16.6
% Chng.	(0.3)	(2.5)	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	59,489	70,810	78,550	86,942
EBITDA (Rs. m)	6,605	7,939	11,366	12,589
Margin (%)	11.1	11.2	14.5	14.5
PAT (Rs. m)	3,989	4,840	7,661	8,727
EPS (Rs.)	7.4	9.0	14.2	16.2
Gr. (%)	(26.3)	21.3	58.3	13.9
DPS (Rs.)	5.2	2.7	2.7	4.5
Yield (%)	1.3	0.7	0.7	1.1
RoE (%)	9.7	11.0	14.7	14.4
RoCE (%)	12.3	14.3	18.5	17.7
EV/Sales (x)	3.5	2.9	2.5	2.2
EV/EBITDA (x)	31.9	26.2	17.1	15.1
PE (x)	53.6	44.2	27.9	24.5
P/BV (x)	5.1	4.6	3.7	3.3

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.536 / Rs.358
Sensex / Nifty	61,761 / 18,266
Market Cap	Rs.214bn/ \$ 2,607m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.75.47m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	3.88
Domestic Institution	12.81
Public & Others	8.32
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.3	(10.7)	(9.5)
Relative	(1.9)	(11.8)	(20.2)

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Kansai Nerolac Paints (KNPL IN)

Rating: ACCUMULATE | CMP: Rs397 | TP: Rs486

Making right moves amidst rising competition

Quick Pointers:

- Decorative volume increased ~10% in 4Q, Auto volumes remain robust
- New launches and premium industrial segments to drive growth in FY24

Kansai has given steady outlook with 1) growth bounce back in decorative segment 2) strong volume growth in auto segment and 3) focus on premium powder coatings. We believe Kansai is making right moves 1) 14 new products in decorative segment including Excel Everlast, Mica marble and Impression Kashmir 2) expanding product range in waterproofing & adhesives 3) focus on premium finishes and 4) focus on emerging segments in EV, Premium Appliances, New ancillary products, Alloy wheels and Railways. Kansai seems cognizant of expected increase in competitive intensity post entry of Grasim, but expects new entrants to grow market and gain share from smaller players.

We expect margins improvement to continue as higher cost inventory has been mostly used and demand environment has been steady. We estimate 330bps margin expansion and 38.6% PAT CAGR over FY23-25 on a depleted base. We value the stock at 30x FY25 EPS assigning a TP of Rs 486 (Rs485, 30x Dec24 earlier). Incremental market share loss and increasing competition from Grasim/JSW and JK Cement remains a key risk to our call. Accumulate.

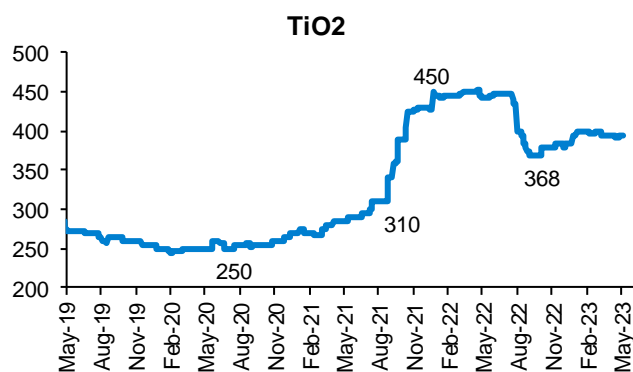
Revenues up 13.6%; Gross margins improves YoY/QoQ: Revenues grew 13.6% YoY to Rs16.1bn (PLe: Rs15.4bn). Gross margins expanded 359bps YoY/136bps QoQ to 31.6% (PLe: 32.5%). EBITDA grew by 83.8% YoY to Rs1.5bn (PLe: Rs1.8bn); Margins expanded by 363bps YoY but declined 148bps QoQ to 9.5% (PLe:11.7%). Adjusted PAT grew by 161.7% YoY to Rs0.9bn (PLe: Rs1.1bn). Board declares a final dividend of Rs2.7/share (FY22 – Rs2.25/share). All businesses have done well. The company continued with growth initiatives in Decorative and Performance coatings. Healthy demand is expected to remain in the near term.

Concall Highlights: 1) Rural demand appears to be coming back. Tier 1 remains the weakest market for KNPL. 2) Competitive intensity has gone up across categories, thus A&P spend is likely to increase further. 3) Auto paints saw strong growth in 4Q and is expected to grow further on account of higher car penetration. 4) Price hikes were taken across categories in FY23. No further hike expected in FY24. 5) GM recovery could be seen from 1Q24 as high cost inventory is almost exhausted in 4Q. 6) Gap between industrial & decorative margins has narrowed. 7) Premiumisation efforts will help bring incremental growth. 8) International subs have performed well in 4Q; capital infusions may be done as and when required. 9) Direct connect with 100k painters as of FY23. 10) Aim to reach 10% market share in decorative paints segment. 11) Management expects double digit EBITDA margins to sustain in FY24. 12) Expansion plans on track with estimated timelines.

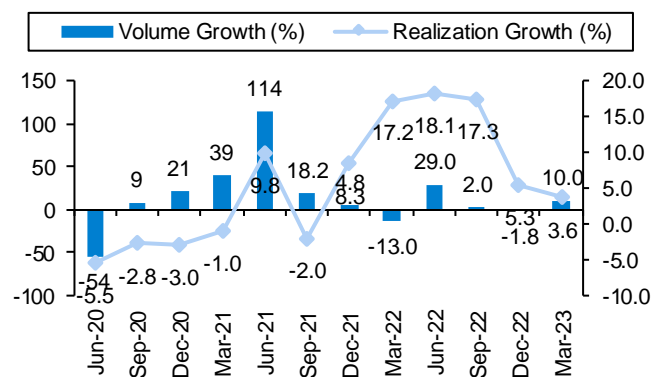
Exhibit 1: Sales grew 13.6% YoY; Gross Margins improve 359bps YoY/136bps QoQ to 31.6%

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	FY23	FY22	YoY gr. (%)
Total Revenue	16,051	14,128	13.6	17,171	70,810	59,489	19.0
Gross Profit	5,066	3,952	28.2	5,186	21,257	18,196	16.8
% of NS	31.6	28.0	3.6	30.2	30.0	30.6	(0.6)
Other Expenses	3,541	3,122	13.4	3,301	13,318	11,723	13.6
% of NS	22.1	22.1	(0.0)	19.2	18.8	19.7	(0.9)
EBITDA	1,525	829	83.8	1,885	7,939	6,473	22.6
Margins %	9.5	5.9	3.6	11.0	11.2	10.9	0.3
Depreciation	420	391	7.5	421	1,646	1,538	7.0
Interest	25	26		25	97	99	
PBT from operations	1,080	412	162.0	1,439	6,195	4,837	28.1
Other Income	143	76	87.7	86	308	329	(6.2)
PBT	1,223	488	150.4	1,525	6,504	5,165	25.9
Tax	283	129	119.2	402	1,639	1,308	25.3
Tax rate %	23.1	26.4	(3.3)	26.4	25.2	25.3	(0.1)
Adjusted PAT	940	359	161.7	1,123	4,864	3,857	26.1

Source: Company, PL

Exhibit 2: TiO2 prices down 10.3% YoY, up 4.1% QoQ


Source: Company, PL

Exhibit 3: double digit volume growth in decorative


Source: Company, PL

Exhibit 4: Subsidiaries saw mixed performance across markets

Nepal	Bangladesh	Sri Lanka
<ul style="list-style-type: none"> Liquidity situation remains tough Marginal de-growth during the year 	<ul style="list-style-type: none"> Net Sales grew in double digits Positive EBITDA for the year Q4 PBT was positive 	<ul style="list-style-type: none"> Net sales Grew by 83% Y-O-Y Increased Market share LKR Currency showing signs of stabilization

Source: Company, PL

Exhibit 5: Neroflix becomes fully owned subsidiary

Neroflix

- Acquisition of balance 40% of equity shares of Neroflix.
- Neroflix has become a wholly owned (100%) subsidiary of the Company.

Source: Company, PL

Exhibit 6: New products launched during FY23



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	59,489	70,810	78,550	86,942
YoY gr. (%)	24.7	19.0	10.9	10.7
Cost of Goods Sold	41,293	49,553	51,160	56,052
Gross Profit	18,196	21,257	27,390	30,891
Margin (%)	30.6	30.0	34.9	35.5
Employee Cost	3,124	3,338	3,927	4,347
Other Expenses	5,235	9,980	6,441	7,303
EBITDA	6,605	7,939	11,366	12,589
YoY gr. (%)	(21.7)	20.2	43.2	10.8
Margin (%)	11.1	11.2	14.5	14.5
Depreciation and Amortization	1,538	1,646	1,722	1,854
EBIT	5,067	6,293	9,644	10,735
Margin (%)	8.5	8.9	12.3	12.3
Net Interest	99	97	115	140
Other Income	329	308	764	1,131
Profit Before Tax	5,297	6,504	10,293	11,726
Margin (%)	8.9	9.2	13.1	13.5
Total Tax	1,308	1,664	2,632	2,998
Effective tax rate (%)	24.7	25.6	25.6	25.6
Profit after tax	3,989	4,840	7,661	8,727
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,989	4,840	7,661	8,727
YoY gr. (%)	(26.3)	21.3	58.3	13.9
Margin (%)	6.7	6.8	9.8	10.0
Extra Ord. Income / (Exp)	(114)	-	4,913	-
Reported PAT	3,875	4,840	12,573	8,727
YoY gr. (%)	(27.0)	24.9	159.8	(30.6)
Margin (%)	6.5	6.8	16.0	10.0
Other Comprehensive Income	25	2	-	-
Total Comprehensive Income	3,900	4,842	12,573	8,727
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	7.4	9.0	14.2	16.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	28,609	31,358	32,994	35,704
Tangibles	28,148	30,887	32,513	35,213
Intangibles	460	470	480	490
Acc: Dep / Amortization	11,501	12,845	14,287	15,825
Tangibles	11,134	12,461	13,886	15,408
Intangibles	367	383	401	417
Net fixed assets	17,108	18,513	18,707	19,879
Tangibles	17,015	18,426	18,627	19,805
Intangibles	94	87	80	74
Capital Work In Progress	2,239	1,126	1,200	1,200
Goodwill	2	2	-	-
Non-Current Investments	1,046	1,715	1,729	1,743
Net Deferred tax assets	(956)	(1,023)	(1,074)	(1,127)
Other Non-Current Assets	3,850	4,141	3,941	4,407
Current Assets				
Investments	2,095	4,981	14,719	18,220
Inventories	15,315	16,480	14,055	14,693
Trade receivables	9,654	11,172	11,338	12,313
Cash & Bank Balance	807	947	4,796	5,731
Other Current Assets	1,551	1,923	2,121	2,347
Total Assets	53,957	61,119	72,683	80,620
Equity				
Equity Share Capital	539	539	539	539
Other Equity	41,170	45,903	57,020	63,323
Total Network	41,709	46,442	57,559	63,862
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	223	211	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,904	9,375	10,744	11,771
Other current liabilities	1,306	3,131	1,900	2,128
Total Equity & Liabilities	53,957	61,119	72,683	80,620

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	5,165	6,558	10,293	11,726
Add. Depreciation	1,538	1,601	1,722	1,854
Add. Interest	99	79	115	140
Less Financial Other Income	329	308	764	1,131
Add. Other	(38)	(187)	5,408	(101)
Op. profit before WC changes	6,764	8,051	17,538	13,619
Net Changes-WC	(213)	(3,374)	(7,455)	(4,093)
Direct tax	(1,308)	(1,611)	(2,632)	(2,998)
Net cash from Op. activities	5,244	3,065	7,452	6,527
Capital expenditures	(2,567)	(1,894)	(1,988)	(3,026)
Interest / Dividend Income	-	-	-	-
Others	113	(640)	-	-
Net Cash from Invt. activities	(2,454)	(2,534)	(1,988)	(3,026)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(2,829)	(1,455)	(1,455)	(2,425)
Interest paid	(99)	(79)	(115)	(140)
Others	-	-	-	-
Net cash from Fin. activities	(2,928)	(1,534)	(1,570)	(2,566)
Net change in cash	(139)	(1,003)	3,893	935
Free Cash Flow	2,677	1,171	5,464	3,501

Source: Company Data, PL Research

Key Financial Metrics

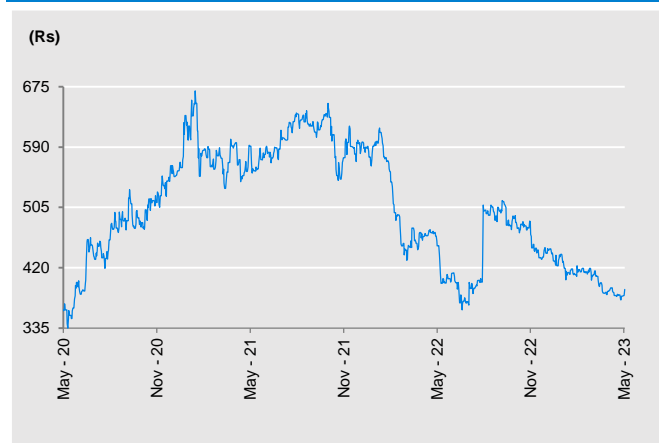
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	9.0	14.2	16.2
CEPS	10.3	12.0	17.4	19.6
BVPS	77.4	86.2	106.8	118.5
FCF	5.0	2.2	10.1	6.5
DPS	5.2	2.7	2.7	4.5
Return Ratio(%)				
RoCE	12.3	14.3	18.5	17.7
ROIC	10.0	12.3	22.1	21.7
RoE	9.7	11.0	14.7	14.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.3)	(0.4)
Net Working Capital (Days)	99	94	68	64
Valuation(x)				
PER	53.6	44.2	27.9	24.5
P/B	5.1	4.6	3.7	3.3
P/CEPS	10.3	12.0	17.4	19.6
EV/EBITDA	31.9	26.2	17.1	15.1
EV/Sales	3.5	2.9	2.5	2.2
Dividend Yield (%)	1.3	0.7	0.7	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	19,446	18,143	17,171	16,051
YoY gr. (%)	47.1	19.3	3.5	13.6
Raw Material Expenses	13,629	12,955	11,985	10,986
Gross Profit	5,817	5,188	5,186	5,066
Margin (%)	29.9	28.6	30.2	31.6
EBITDA	2,556	1,973	1,885	1,525
YoY gr. (%)	34.7	19.8	7.7	83.8
Margin (%)	13.1	10.9	11.0	9.5
Depreciation / Depletion	393	412	421	420
EBIT	2,164	1,561	1,464	1,104
Margin (%)	11.1	8.6	8.5	6.9
Net Interest	23	25	25	25
Other Income	44	35	86	143
Profit before Tax	2,184	1,572	1,525	1,223
Margin (%)	11.2	8.7	8.9	7.6
Total Tax	555	399	402	283
Effective tax rate (%)	25.4	25.4	26.4	23.1
Profit after Tax	1,629	1,173	1,123	940
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,629	1,173	1,123	940
YoY gr. (%)	37.0	19.0	5.7	161.7
Margin (%)	8.4	6.5	6.5	5.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,629	1,173	1,123	940
YoY gr. (%)	37.0	13.1	(15.2)	283.2
Margin (%)	8.4	6.5	6.5	5.9
Other Comprehensive Income	3	4	3	(9)
Total Comprehensive Income	1,632	1,176	1,126	931
Avg. Shares O/s (m)	539	539	539	539
EPS (Rs)	3.0	2.2	2.1	1.7

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	Accumulate	485	386
2	06-Feb-23	Accumulate	485	416
3	06-Jan-23	Accumulate	563	419
4	03-Nov-22	Accumulate	563	465
5	04-Oct-22	Accumulate	558	495
6	03-Aug-22	Accumulate	558	499
7	07-Jul-22	BUY	513	396
8	12-May-22	BUY	518	398

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,150	2,776
2	Avenue Supermarts	BUY	4,561	3,451
3	Britannia Industries	Hold	4,800	4,626
4	Colgate Palmolive	Hold	1,565	1,537
5	Dabur India	Accumulate	590	530
6	Emami	Accumulate	485	359
7	Hindustan Unilever	Accumulate	2,785	2,469
8	ITC	Accumulate	444	389
9	Jubilant FoodWorks	BUY	500	426
10	Kansai Nerolac Paints	Accumulate	485	386
11	Marico	Accumulate	550	494
12	Mold-tek Packaging	Hold	968	1,001
13	Nestle India	Accumulate	22,600	20,670
14	Pidilite Industries	Hold	2,500	2,359
15	Restaurant Brands Asia	Accumulate	121	94
16	Titan Company	BUY	2,992	2,651
17	Westlife Foodworld	BUY	806	728

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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