Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Kansai Nerolac Paints (KNPL IN)

Rating: ACCUMULATE | CMP: Rs327 | TP: Rs351

August 4, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	351		328	
Sales (Rs. m)	76,629	84,816	78,729	87,139
% Chng.	*(2.7)*	*(2.7)*		
EBITDA (Rs. m)	11,607	13,093	10,716	12,130
% Chng.	*8.3*	*7.9*		
EPS (Rs.)	9.5	11.0	8.8	10.3
% Chng.	*7.1*	*6.8*		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	59,489	70,810	76,629	84,816
EBITDA (Rs. m)	6,605	8,098	11,607	13,093
Margin (%)	*11.1*	*11.4*	*15.1*	*15.4*
PAT (Rs. m)	3,989	5,023	7,644	8,855
EPS (Rs.)	7.4	9.3	9.5	11.0
Gr. (%)	*(26.3)*	*25.9*	*1.4*	*15.8*
DPS (Rs.)	5.2	1.0	2.7	4.5
Yield (%)	*1.6*	*0.3*	*0.8*	*1.4*
RoE (%)	*9.7*	*11.4*	*14.9*	*15.0*
RoCE (%)	*12.3*	*14.7*	*18.8*	*18.9*
EV/Sales (x)	2.9	2.4	3.3	3.0
EV/EBITDA (x)	26.2	21.0	21.8	19.2
PE (x)	44.2	35.1	34.6	29.9
P/BV (x)	4.2	3.8	4.7	4.3

Key Data	KANE.BO | KNPL IN
52-W High / Low	Rs.354 / Rs.247
Sensex / Nifty	65,721 / 19,517
Market Cap	Rs.264bn/ $ 3,192m
Shares Outstanding	808m
3M Avg. Daily Value	Rs.189.29m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	4.21
Domestic Institution	12.30
Public & Others	8.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.5	17.5	(1.9)
Relative	2.1	8.8	(13.0)

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Deco initiatives, Industrial recovery paying off

Quick Pointers:

- Ex Putty Deco volumes up ~10%; Auto/ Industrial volumes remain healthy.
- Non- Auto Industrial paints to grow in double digits led by Infra/Industrial growth

We are increasing our FY24/25 EPS estimates by 7.1%/6.8% and target price to Rs351 (Rs328 earlier at 32xFY25E EPS) following positive outlook led by 1) steady growth in decorative segment 2) expected 2W recovery in auto segment and 3) strong growth outlook for non-auto industrial paints. We believe Kansai is making right moves with 1) new variants in Impression Kashmir (high/mid sheen and matt) 2) complete product range in waterproofing supported with higher feet on street 3) focus on premium finishes and 4) emerging segments in EV, Premium Appliances, New ancillary products, Alloy wheels and Railways. The company expects increase in competitive intensity post entry of Grasim, but new entrant will grow market & penetration (50-55%) and gain share from smaller unorganized players.

We expect margins improvement to continue as higher cost inventory has been exhausted and demand environment has been steady. We estimate 423bps EBITDA margin expansion and 38.4% PAT CAGR over FY23-25 on a depleted base. Incremental market share loss and increasing competition from Grasim/JSW and JK Cement remains a key risk to our call. Accumulate.

Revenues up 6.5%; Gross margins improves YoY/QoQ: Revenues grew by 6.5% YoY to Rs20.7bn (PLe: Rs21.6bn). Gross margins expanded by 539bps YoY to 35.3% (PLe: 32.0%). EBITDA grew by 30.6% YoY to Rs3.3bn (PLe: Rs2.7bn); Margins expanded by 298bps YoY to 16.1% (PLe:12.5%). Adjusted PAT grew by 39.3% YoY to Rs2.3bn (PLe: Rs1.7bn). This quarter witnessed robust demand in Automotive & Performance coating. The company continued with growth initiatives in Decorative and Performance coatings.

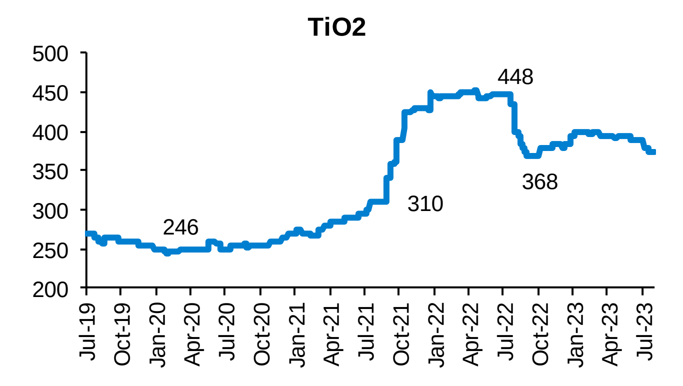
Concall Highlights: 1) Premium/Economy salience has increased in 1Q24 2) Decorative market share at <10%; North market share at 15%+ 3) Reduced market share growth gap vs leader over the last 1.5 years; want to come in-line with market growth 4) Projects segment market share at <10%; has increased presence to 71 towns 5) RM basket remains volatile with FX rates/rise in crude oil prices 6) No price cuts in decorative/industrial business 7) Ad spends to remain elevated (4.5% in 1Q24) to communicate Paint+ proposition effectively 8) Industrial margins in double digits; any price cuts may take 3-6 months after RM stabilization 9) Share of exited (low margin) high performance coating biz at 2-3% of overall sales 10) Expect EBITDA margins to be higher than FY23 at 14%+ 11) Margins are highest in 1st/3rd quarters 12) Royalty is paid to parent only on certain products; many products have been developed internally 13) Adds 8-10% to dealer network every year; to add higher no in FY24 14) Innovation (products launched 3+ years)/Paint+ salience rate at 10%/8% 15) Cash on hand at Rs8-9bn which will be reinvested in the business; open to exploring acquisitions.

Exhibit 1: Sales grew 6.5% YoY; Gross Margins improve 539bps YoY/375bps QoQ to 35.3%

Y/e March	1QFY24	1QFY23	*YoY gr. (%)*	4QFY23	FY23	FY22	*YoY gr. (%)*
Total Revenue	**20,712**	**19,446**	***6.5***	**16,051**	**70,810**	**59,489**	***19.0***
Gross Profit	7,312	5,817	*25.7*	5,066	21,257	18,196	*16.8*
% of NS	*35.3*	*29.9*	*5.4*	*31.6*	*30.0*	*30.6*	*(0.6)*
Other Expenses	**3,973**	**3,261**	***21.8***	**3,541**	**13,318**	**11,723**	***13.6***
% of NS	*19.2*	*16.8*	*2.4*	*22.1*	*18.8*	*19.7*	*(0.9)*
EBITDA	**3,339**	**2,556**	***30.6***	**1,525**	**7,939**	**6,473**	***22.6***
Margins %	*16.1*	*13.1*	*3.0*	*9.5*	*11.2*	*10.9*	*0.3*
Depreciation	428	393	*8.9*	420	1,646	1,538	*7.0*
Interest	29	23		25	97	99	
PBT from operations	**2,882**	**2,140**	***34.7***	**1,080**	**6,195**	**4,837**	***28.1***
Other Income	164	44	*273.3*	143	308	329	*(6.2)*
PBT	**3,046**	**2,184**	***39.5***	**1,223**	**6,504**	**5,165**	***25.9***
Tax	777	555	*39.9*	283	1,639	1,308	*25.3*
Tax rate %	*25.5*	*25.4*	*0.1*	*23.1*	*25.2*	*25.3*	*(0.1)*
Adjusted PAT	**2,269**	**1,629**	***39.3***	**940**	**4,864**	**3,857**	***26.1***

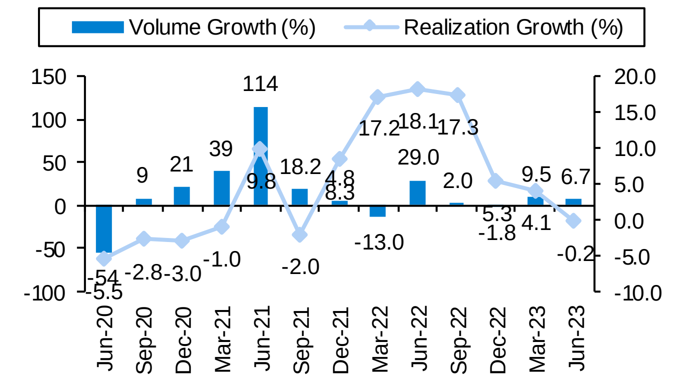
Source: Company, PL

Exhibit 2: TiO2 prices down 12.0% YoY and 1.3% QoQ



Source: Company, PL

Exhibit 3: Volumes grow by 6.7% in 1Q24



Source: Company, PL

Exhibit 4: Subsidiaries saw mixed performance across markets

Nepal	Bangladesh	Sri Lanka
▪ Poor market demand and liquidity constraints continued. ▪ The economy is still reeling under the impact of foreign exchange crisis and delayed policy actions.	• Foreign exchange crises continues leading to delay in LCs creating tough market conditions	• Sales in Q1 grew . • Exchange rate is stabilising • Inflation is receding

Source: Company, PL

Exhibit 5: Media campaigns to support Impressions Kashmir variants

Source: Company, PL

Exhibit 6: New products launched in 1Q24

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**59,489**	**70,810**	**76,629**	**84,816**
YoY gr. (%)	*24.7*	*19.0*	*8.2*	*10.7*
Cost of Goods Sold	41,293	49,553	49,696	54,335
Gross Profit	18,196	21,257	26,933	30,481
Margin (%)	*30.6*	*30.0*	*35.1*	*35.9*
Employee Cost	3,124	3,338	3,717	4,156
Other Expenses	5,235	5,793	6,322	7,125
EBITDA	**6,605**	**8,098**	**11,607**	**13,093**
YoY gr. (%)	*(21.7)*	*22.6*	*43.3*	*12.8*
Margin (%)	*11.1*	*11.4*	*15.1*	*15.4*
Depreciation and Amortization	1,538	1,646	1,951	1,935
EBIT	**5,067**	**6,452**	**9,657**	**11,158**
Margin (%)	*8.5*	*9.1*	*12.6*	*13.2*
Net Interest	99	97	105	96
Other Income	329	308	717	835
Profit Before Tax	**5,297**	**6,663**	**10,269**	**11,897**
Margin (%)	*8.9*	*9.4*	*13.4*	*14.0*
Total Tax	1,308	1,639	2,626	3,042
Effective tax rate (%)	*24.7*	*24.6*	*25.6*	*25.6*
Profit after tax	**3,989**	**5,023**	**7,644**	**8,855**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**3,989**	**5,023**	**7,644**	**8,855**
YoY gr. (%)	*(26.3)*	*25.9*	*52.2*	*15.8*
Margin (%)	*6.7*	*7.1*	*10.0*	*10.4*
Extra Ord. Income / (Exp)	(114)	-	4,913	-
Reported PAT	**3,875**	**5,023**	**12,556**	**8,855**
YoY gr. (%)	*(27.0)*	*29.6*	*149.9*	*(29.5)*
Margin (%)	*6.5*	*7.1*	*16.4*	*10.4*
Other Comprehensive Income	25	2	-	-
Total Comprehensive Income	3,900	5,025	12,556	8,855
Equity Shares O/s (m)	**539**	**539**	**808**	**808**
EPS (Rs)	**7.4**	**9.3**	**9.5**	**11.0**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**28,609**	**30,992**	**32,628**	**35,338**
Tangibles	28,148	30,480	32,106	34,806
Intangibles	460	512	522	532
Acc: Dep / Amortization	**11,501**	**12,774**	**14,136**	**15,589**
Tangibles	11,134	12,349	13,693	15,131
Intangibles	367	425	442	458
Net fixed assets	**17,108**	**18,218**	**18,492**	**19,749**
Tangibles	17,015	18,131	18,412	19,675
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	4,069	4,807	5,115
Current Assets				
Investments	2,095	4,981	8,981	10,181
Inventories	15,315	16,480	17,909	19,823
Trade receivables	9,654	11,172	12,110	13,173
Cash & Bank Balance	807	947	1,944	2,577
Other Current Assets	1,551	1,923	2,069	2,290
Total Assets	**53,957**	**60,751**	**69,394**	**76,021**
Equity				
Equity Share Capital	539	539	808	808
Other Equity	41,170	45,535	55,601	61,088
Total Networth	**41,709**	**46,074**	**56,410**	**61,896**
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	9,442	10,324
Other current liabilities	1,306	3,131	1,563	1,706
Total Equity & Liabilities	**53,957**	**60,751**	**69,394**	**76,021**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	5,165	6,504	10,269	11,897
Add. Depreciation	1,538	1,646	1,951	1,935
Add. Interest	99	97	105	96
Less Financial Other Income	329	308	717	835
Add. Other	(38)	(113)	3,968	(206)
Op. profit before WC changes	6,764	8,134	16,293	13,722
Net Changes-WC	(213)	(3,374)	(8,050)	(3,390)
Direct tax	(1,308)	(1,639)	(2,626)	(3,042)
Net cash from Op. activities	**5,244**	**3,121**	**5,617**	**7,290**
Capital expenditures	(2,567)	(1,644)	(2,296)	(3,192)
Interest / Dividend Income	-	-	-	-
Others	113	(640)	-	-
Net Cash from Invt. activities	**(2,454)**	**(2,284)**	**(2,296)**	**(3,192)**
Issue of share cap. / premium	-	38	(38)	269
Debt changes	-	-	-	-
Dividend paid	(2,829)	(539)	(2,183)	(3,638)
Interest paid	(99)	(97)	(105)	(96)
Others	-	-	-	-
Net cash from Fin. activities	**(2,928)**	**(599)**	**(2,325)**	**(3,464)**
Net change in cash	**(139)**	**238**	**996**	**634**
Free Cash Flow	2,677	1,477	3,321	4,098

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**18,143**	**17,171**	**16,051**	**20,712**
YoY gr. (%)	*19.3*	*3.5*	*13.6*	*6.5*
Raw Material Expenses	12,955	11,985	10,986	13,400
Gross Profit	5,188	5,186	5,066	7,312
Margin (%)	*28.6*	*30.2*	*31.6*	*35.3*
EBITDA	**1,973**	**1,885**	**1,525**	**3,339**
YoY gr. (%)	*19.8*	*7.7*	*83.8*	*30.6*
Margin (%)	*10.9*	*11.0*	*9.5*	*16.1*
Depreciation / Depletion	412	421	420	428
EBIT	**1,561**	**1,464**	**1,104**	**2,912**
Margin (%)	*8.6*	*8.5*	*6.9*	*14.1*
Net Interest	25	25	25	29
Other Income	35	86	143	164
Profit before Tax	**1,572**	**1,525**	**1,223**	**3,046**
Margin (%)	*8.7*	*8.9*	*7.6*	*14.7*
Total Tax	399	402	283	777
Effective tax rate (%)	*25.4*	*26.4*	*23.1*	*25.5*
Profit after Tax	**1,173**	**1,123**	**940**	**2,269**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,173**	**1,123**	**940**	**2,269**
YoY gr. (%)	*19.0*	*5.7*	*161.7*	*39.3*
Margin (%)	*6.5*	*6.5*	*5.9*	*11.0*
Extra Ord. Income / (Exp)	-	-	-	5,169
Reported PAT	**1,173**	**1,123**	**940**	**7,438**
YoY gr. (%)	*13.1*	*(15.2)*	*283.2*	*356.6*
Margin (%)	*6.5*	*6.5*	*5.9*	*35.9*
Other Comprehensive Income	4	3	(9)	1
Total Comprehensive Income	**1,176**	**1,126**	**931**	**7,439**
Avg. Shares O/s (m)	539	539	539	539
EPS (Rs)	**2.2**	**2.1**	**1.7**	**4.2**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	9.3	9.5	11.0
CEPS	10.3	12.4	11.9	13.3
BVPS	77.4	85.5	69.8	76.6
FCF	5.0	2.7	4.1	5.1
DPS	5.2	1.0	2.7	4.5
Return Ratio(%)				
RoCE	12.3	14.7	18.8	18.9
ROIC	10.0	12.8	17.8	17.9
RoE	9.7	11.4	14.9	15.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	99	94	98	98
Valuation(x)				
PER	44.2	35.1	34.6	29.9
P/B	4.2	3.8	4.7	4.3
P/CEPS	10.5	12.6	12.1	13.6
EV/EBITDA	26.2	21.0	21.8	19.2
EV/Sales	2.9	2.4	3.3	3.0
Dividend Yield (%)	1.6	0.3	0.8	1.4

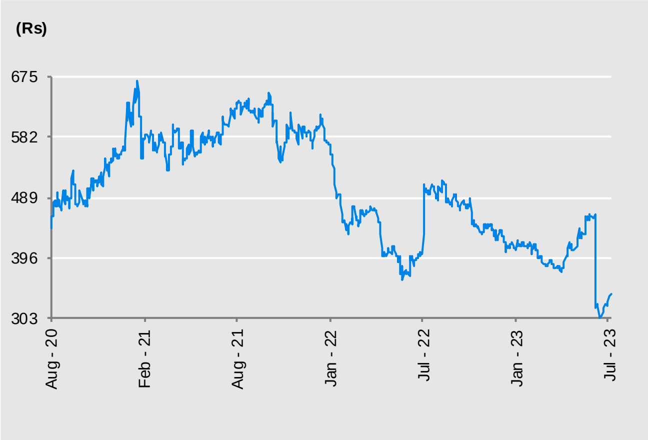
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Volume Gr %	21.0	10.0	7.5	8.0
Gross Margins %	30.6	30.0	35.1	35.9

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	328	320
2	09-May-23	Accumulate	486	397
3	11-Apr-23	Accumulate	485	386
4	06-Feb-23	Accumulate	485	416
5	06-Jan-23	Accumulate	563	419
6	03-Nov-22	Accumulate	563	465
7	04-Oct-22	Accumulate	558	495

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	3,527	3,400
2	Avenue Supermarts	BUY	4,574	3,678
3	Britannia Industries	Hold	4,800	5,174
4	Colgate Palmolive	Hold	1,869	1,898
5	Dabur India	Accumulate	600	555
6	Emami	Accumulate	517	427
7	Hindustan Unilever	Hold	2,775	2,700
8	ITC	Accumulate	478	465
9	Jubilant FoodWorks	Hold	490	476
10	Kansai Nerolac Paints	Accumulate	328	320
11	Marico	Hold	581	574
12	Mold-tek Packaging	Hold	968	1,074
13	Nestle India	Accumulate	23,585	22,325
14	Pidilite Industries	Hold	2,664	2,649
15	Restaurant Brands Asia	Accumulate	146	112
16	Titan Company	Accumulate	3,240	2,977
17	Westlife Foodworld	Accumulate	932	898

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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