

July 31, 2024

Q1FY25 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	284		266	
Sales (Rs. m)	77,228	83,587	81,204	87,895
% Chng.	(4.9)	(4.9)		
EBITDA (Rs. m)	10,973	11,997	11,538	12,396
% Chng.	(4.9)	(3.2)		
EPS (Rs.)	9.3	10.0	9.7	10.2
% Chng.	(4.1)	(2.6)		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	70,810	73,933	77,228	83,587
EBITDA (Rs. m)	8,098	10,229	10,973	11,997
Margin (%)	11.4	13.8	14.2	14.4
PAT (Rs. m)	5,023	6,850	7,506	8,066
EPS (Rs.)	9.3	8.5	9.3	10.0
Gr. (%)	25.9	(9.1)	9.6	7.5
DPS (Rs.)	1.0	2.7	3.8	3.0
Yield (%)	0.3	0.9	1.2	1.0
RoE (%)	11.4	13.4	12.8	12.8
RoCE (%)	14.7	16.4	15.0	15.2
EV/Sales (x)	2.3	3.1	3.0	2.8
EV/EBITDA (x)	19.7	22.8	21.4	19.4
PE (x)	33.0	36.3	33.1	30.8
P/BV (x)	3.6	4.4	4.1	3.8

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.356 / Rs.251
Sensex / Nifty	81,741 / 24,951
Market Cap	Rs.248bn/ \$ 2,966m
Shares Outstanding	808m
3M Avg. Daily Value	Rs.249.85m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	5.09
Domestic Institution	10.74
Public & Others	9.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.7	(9.7)	(8.0)
Relative	10.0	(20.7)	(25.1)

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Kansai Nerolac Paints (KNPL IN)

Rating: REDUCE | CMP: Rs307 | TP: Rs284

Competitive dynamics key to re-rating

Quick Pointers:

- Volume growth ~5%, Rural markets see green shoots, Birla OPUS impact not visible in the market dynamics so far
- Price hikes (~1-1.5%) taken in Q2 & another one in pipeline

Kansai remains optimistic over near term given 1) Favorable monsoon impact on demand in festival season 2) positive outlook in non-auto industrials led by Infra, Railways, Powder coatings etc. 3) growing salience of project business and 3) Revival of demand from 2W even as PV's and CV are expected to maintain steady growth post strong run of past 2 years. Kansai is making right moves by sustained innovation in decorative, focus on projects, new products in EV, Premium Appliances, New ancillary products, Alloy wheels and Railways.

We cut our EPS estimates by 4.3/2.2% for FY25/FY26 given 1) increased spends on advertising and distribution in changed industry dynamics 2) limited scope to increase margin as lower margin Industrial paints growing close to double digits and 3) Limited GM expansion given inflation in key inputs. We estimate GM to remain flat & 50bps EBITDA margin expansion with 8.5% PAT CAGR over FY24-26. We value the stock at 28xJun'26 EPS (26x FY26 earlier) and assign a target price of Rs284 (Rs266 earlier). While PE multiples have limited scope of compression, competitive dynamics and success of Birla Opus will be key factor to determine valuations. Retain Reduce.

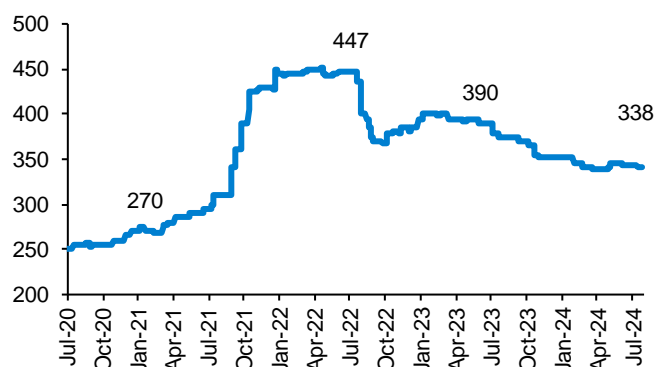
Revenues de-grew 1%; Volume growth ~5%: Revenues declined by 1% YoY to Rs20.5bn (PL: Rs21.9bn) Gross margins expanded by 169bps YoY to 37% (PL: 35.5%) led by cost control, product mix, & procurement efficiencies. EBITDA grew by 0.2% YoY to Rs3.3bn (PL: Rs2.2bn); Margins expanded by 19bps YoY to 16.3% (PL:16.5%) Adjusted PAT grew by 6.3% YoY to Rs2.4bn (PL: Rs2.5bn).

Concall Highlights: 1) Rural markets see green shoots QoQ but urban continues to grow ahead of rural 2) Decorative business faced muted demand due to unprecedented heat wave, labor shortages and elections. 3) Premium portfolio in decorative contributed well & aided GM expansion 3) Industrial business witnessed mixed growth with good demand for Automotive coatings while Performance coatings witnessed subdued demand due to elections, with a pick up from June 4) Two- wheelers demand has picked up post 3QFY24 whereas passenger vehicle witnessed decent demand 5) Projects business continued to see good traction & is present in 78-79 towns as of 1QFY25 6) Key inputs are trending upwards, indicating potential inflation. As a result, ~1/1.5% price hikes have been taken in decorative business & another one is in pipeline 7) New businesses continue to see good traction whereas new products contributed >10% of decorative business 8) Demand is expected to pick up on account of monsoons, infrastructure growth & new projects 9) EBITDA guidance for FY25 is the same FY24 levels (~14%) 10) Kansai has exited some low end segments in decorative paints which has improved sales mix.

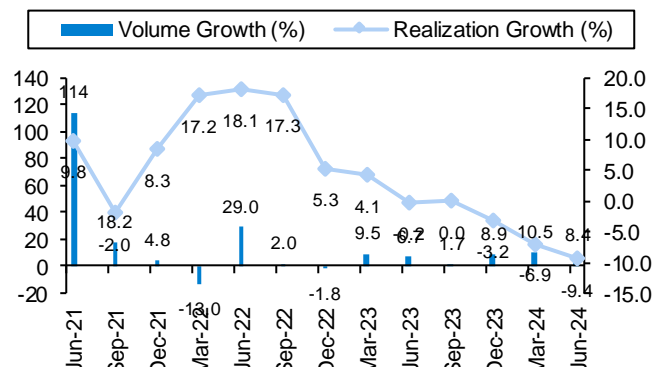
Exhibit 1: Sales de-grew 1% YoY; Gross Margins improve 169bps YoY

Y/e March	Q1FY25	Q1FY24	YoY gr.(%)	Q4FY24	FY24	FY23	YoY gr.(%)
Total Revenue	20,504	20,712	(1.0)	16,617	73,933	70,810	4.4
Gross Profit	7,586	7,312	3.7	5,775	26,236	21,257	23.4
% of NS	37.0	35.3	1.7	34.8	35.5	30.0	5.5
Other Expenses	4,242	3,973	6.8	3,983	16,007	13,318	20.2
% of NS	20.7	19.2	1.5	24.0	21.7	18.8	2.8
EBITDA	3,344	3,339	0.2	1,791	10,229	7,939	28.8
Margins %	16.3	16.1	0.2	10.8	13.8	11.2	2.6
Depreciation	460	428	7.6	458	1,800	1,646	9.3
Interest	34	29	15.4	32	125	97	28.1
PBT from operations	2,851	2,882	(1.1)	1,302	8,305	6,195	34.0
Other Income	384	164	134.6	320	931	308	202.0
PBT	3,234	3,046	6.2	1,623	9,236	6,504	42.0
Tax	823	777	6.0	417	2,386	1,639	45.6
Tax rate %	25.5	25.5	(0.0)	25.7	25.8	25.2	0.6
Adjusted PAT	2,411	2,269	6.3	1,205	6,850	4,864	40.8

Source: Company, PL

Exhibit 2: TiO2 prices down 13% YoY and 1.1% QoQ


Source: Company, PL

Exhibit 3: Volumes grow by 5% in 1QFY25


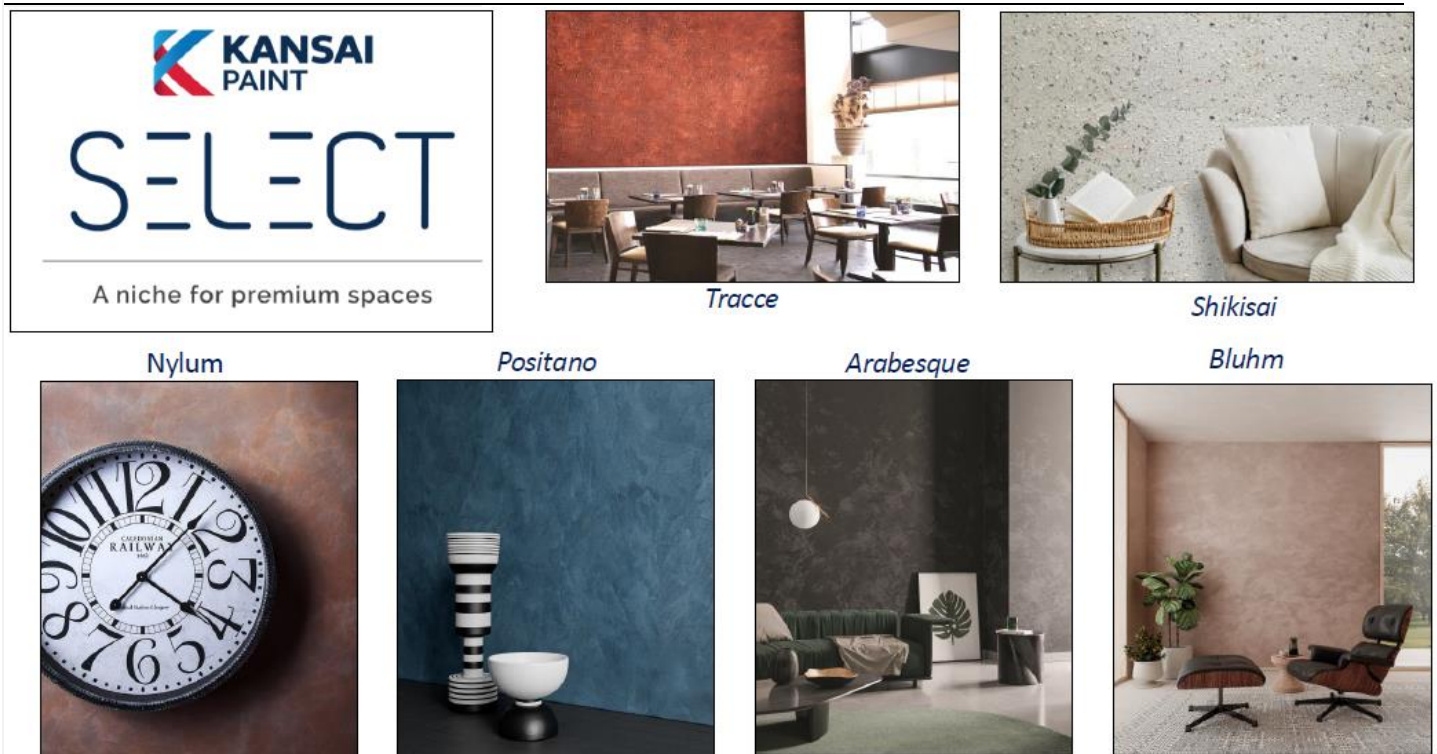
Source: Company, PL

Exhibit 4: Subsidiaries saw mixed performance across markets

Nepal	Bangladesh	Sri Lanka
<ul style="list-style-type: none"> Mid Single digit growth Market growth was under stress due to lack of government expenditure, liquidity crunch, and untimely monsoon rains Credit off take was low despite lower interest rates due to lack of demand 	<ul style="list-style-type: none"> Net Sales grew in double digits Continuous efforts are taken on reducing overheads, and better fund management Forex loss continued due to currency depreciation 	<ul style="list-style-type: none"> Net Sales de-grew High demand of economy / mid range products Highly competitive market

Source: Company, PL

Exhibit 5: Increase in premium saliency contributed to GM expansion



Source: Company, PL

Exhibit 6: New products launched in 1Q



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	70,810	73,933	77,228	83,587
YoY gr. (%)	19.0	4.4	4.5	8.2
Cost of Goods Sold	49,553	47,697	49,690	53,953
Gross Profit	21,257	26,236	27,538	29,634
Margin (%)	30.0	35.5	35.7	35.5
Employee Cost	3,338	4,018	4,363	4,681
Other Expenses	5,793	6,385	6,603	7,021
EBITDA	8,098	10,229	10,973	11,997
YoY gr. (%)	22.6	26.3	7.3	9.3
Margin (%)	11.4	13.8	14.2	14.4
Depreciation and Amortization	1,646	1,800	2,194	2,380
EBIT	6,452	8,429	8,778	9,618
Margin (%)	9.1	11.4	11.4	11.5
Net Interest	97	125	155	183
Other Income	308	931	1,460	1,402
Profit Before Tax	6,663	9,236	10,084	10,837
Margin (%)	9.4	12.5	13.1	13.0
Total Tax	1,639	2,386	2,579	2,771
Effective tax rate (%)	24.6	25.8	25.6	25.6
Profit after tax	5,023	6,850	7,506	8,066
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,023	6,850	7,506	8,066
YoY gr. (%)	25.9	36.4	9.6	7.5
Margin (%)	7.1	9.3	9.7	9.6
Extra Ord. Income / (Exp)	-	4,979	-	-
Reported PAT	5,023	11,829	7,506	8,066
YoY gr. (%)	29.6	135.5	(36.5)	7.5
Margin (%)	7.1	16.0	9.7	9.6
Other Comprehensive Income	2	(38)	-	-
Total Comprehensive Income	5,025	11,791	7,506	8,066
Equity Shares O/s (m)	539	808	808	808
EPS (Rs)	9.3	8.5	9.3	10.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	30,992	32,811	35,802	38,512
Tangibles	30,480	32,260	35,241	37,941
Intangibles	512	551	561	571
Acc: Dep / Amortization	12,774	14,035	15,507	17,099
Tangibles	12,349	13,593	15,043	16,616
Intangibles	425	442	464	483
Net fixed assets	18,218	18,776	20,294	21,413
Tangibles	18,131	18,667	20,198	21,325
Intangibles	87	109	97	87
Capital Work In Progress	1,126	1,481	1,200	1,200
Goodwill	2	-	-	-
Non-Current Investments	1,715	1,563	1,579	1,596
Net Deferred tax assets	(1,023)	(1,171)	(1,229)	(1,291)
Other Non-Current Assets	4,069	4,647	5,648	6,034
Current Assets				
Investments	4,981	13,229	14,429	15,179
Inventories	16,480	16,160	18,039	19,314
Trade receivables	11,172	12,153	11,987	12,973
Cash & Bank Balance	947	2,296	(1,374)	725
Other Current Assets	1,923	1,317	2,085	2,257
Total Assets	60,751	72,248	74,598	81,442
Equity				
Equity Share Capital	539	808	808	808
Other Equity	45,535	55,723	59,580	65,221
Total Network	46,074	56,531	60,389	66,029
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	211	206	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,375	10,242	9,441	10,024
Other current liabilities	3,131	2,903	1,932	2,146
Total Equity & Liabilities	60,751	72,248	74,598	81,442

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	6,504	9,236	10,084	10,837
Add. Depreciation	1,646	1,800	2,194	2,380
Add. Interest	97	125	155	183
Less Financial Other Income	308	931	1,460	1,402
Add. Other	(113)	4,730	(753)	3
Op. profit before WC changes	8,134	15,890	11,680	13,402
Net Changes-WC	(3,374)	(8,800)	(5,538)	(2,426)
Direct tax	(1,639)	(2,386)	(2,579)	(2,771)
Net cash from Op. activities	3,121	4,705	3,564	8,205
Capital expenditures	(1,644)	(2,710)	(3,432)	(3,498)
Interest / Dividend Income	-	-	-	-
Others	(640)	185	-	-
Net Cash from Inv. activities	(2,284)	(2,525)	(3,432)	(3,498)
Issue of share cap. / premium	38	849	(617)	-
Debt changes	-	-	-	-
Dividend paid	(539)	(2,183)	(3,031)	(2,425)
Interest paid	(97)	(125)	(155)	(183)
Others	-	-	-	-
Net cash from Fin. activities	(599)	(1,458)	(3,803)	(2,608)
Net change in cash	238	721	(3,671)	2,100
Free Cash Flow	1,477	1,995	132	4,707

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	9.3	8.5	9.3	10.0
CEPS	12.4	10.7	12.0	12.9
BVPS	85.5	69.9	74.7	81.7
FCF	2.7	2.5	0.2	5.8
DPS	1.0	2.7	3.8	3.0
Return Ratio(%)				
RoCE	14.7	16.4	15.0	15.2
ROIC	12.8	17.5	14.4	15.1
RoE	11.4	13.4	12.8	12.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.3)	(0.2)	(0.2)
Net Working Capital (Days)	94	89	97	97
Valuation(x)				
PER	33.0	36.3	33.1	30.8
P/B	3.6	4.4	4.1	3.8
P/CEPS	12.5	10.8	12.1	13.0
EV/EBITDA	19.7	22.8	21.4	19.4
EV/Sales	2.3	3.1	3.0	2.8
Dividend Yield (%)	0.3	0.9	1.2	1.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	18,456	18,149	16,617	20,504
YoY gr. (%)	1.7	5.7	3.5	(1.0)
Raw Material Expenses	11,873	11,583	10,842	12,918
Gross Profit	6,583	6,566	5,775	7,586
Margin (%)	35.7	36.2	34.8	37.0
EBITDA	2,699	2,399	1,791	3,344
YoY gr. (%)	36.8	27.3	17.5	0.2
Margin (%)	14.6	13.2	10.8	16.3
Depreciation / Depletion	452	462	458	460
EBIT	2,247	1,937	1,334	2,884
Margin (%)	12.2	10.7	8.0	14.1
Net Interest	32	32	32	34
Other Income	224	224	320	384
Profit before Tax	2,439	2,129	1,623	3,234
Margin (%)	13.2	11.7	9.8	15.6
Total Tax	640	552	417	823
Effective tax rate (%)	26.2	26.0	25.7	25.5
Profit after Tax	1,799	1,576	1,205	2,411
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,799	1,576	1,205	2,411
YoY gr. (%)	53.4	40.4	28.2	6.3
Margin (%)	9.7	8.7	7.3	11.6
Extra Ord. Income / (Exp)	-	-	(190)	-
Reported PAT	1,799	1,576	1,015	2,411
YoY gr. (%)	53.4	40.4	8.0	(67.6)
Margin (%)	9.7	8.7	6.1	11.6
Other Comprehensive Income	-	1	(40)	(5)
Total Comprehensive Income	1,799	1,577	976	2,406
Av g. Shares O/s (m)	808	539	539	808
EPS (Rs)	2.2	2.9	2.2	3.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Volume Gr %	10.0	7.0	8.0	10.0
Gross Margins %	30.0	35.5	35.7	35.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jul-24	Reduce	266	267
2	07-May-24	Reduce	273	284
3	09-Apr-24	Reduce	288	281
4	23-Feb-24	Reduce	288	309
5	06-Feb-24	Hold	341	334
6	08-Jan-24	Accumulate	346	337
7	10-Dec-23	Accumulate	370	330
8	03-Nov-23	Accumulate	351	306
9	07-Oct-23	Accumulate	351	324
10	04-Aug-23	Accumulate	351	327

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,605	2,974
2	Avenue Supermarts	Accumulate	5,104	5,027
3	Britannia Industries	Hold	5,315	5,547
4	Colgate Palmolive	Reduce	2,743	3,210
5	Dabur India	UR	-	606
6	Emami	UR	-	725
7	Hindustan Unilever	Hold	2,698	2,766
8	ITC	Accumulate	491	434
9	Jubilant FoodWorks	UR	-	570
10	Kansai Nerolac Paints	Reduce	266	267
11	Marico	Accumulate	621	615
12	Metro Brands	Hold	1,190	1,218
13	Mold-tek Packaging	Accumulate	843	796
14	Nestle India	Accumulate	2,746	2,481
15	Pdillite Industries	Accumulate	3,141	3,100
16	Restaurant Brands Asia	Accumulate	134	110
17	Titan Company	Accumulate	3,545	3,269
18	Westlife Foodworld	Hold	791	833

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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