

06 May 2024

India | Equity Research | Q4FY24 results review

Kansai Nerolac Paints

Consumer Staples & Discretionary

Likely market share gains in economy segments, ancillaries

Kansai Nerolac reported weaker-than-expected Q4FY24. Picking the positives - (1) likely market share gains economy segment and ancillaries (10% volume growth in H2FY24 YoY), (2) benefits of its investments in distribution, new products and brand building over past 18-24 months visible now, (3) industrial, automotive paints (45% of net sales) is likely to perform well (no material change in competitive positioning), automotive production and capex upcycle augurs well. KNPL is planning to increase capacity of Industrial paints by 850MT/month at Sayakha and Bawal plants at capex of INR 495mn. It is also in process to unlock value in its two excess land parcels at Mumbai (Lower Parel and Thane) for total consideration of INR 14bn. Additional resources provide ammunition to compete effectively. **ADD**.

We reckon (comfortable) competitive equilibrium in Paints is likely broken. Retain underweight on large cap paints. Contrarian investors may consider owning Akzo Nobel/Indigo Paints/Kansai Nerolac.

Q4FY24 result

Kansai reported revenue, EBITDA and adjusted PAT growth of 2.1%, 6.5% and 18.8%, respectively YoY. Correction in commodity prices led to gross and EBITDA margin expansion of 246bps and 42bps, respectively YoY. There were price cuts (cumulative: ~4%) in decorative paints in Nov'23 and Feb'24. We believe Kansai has increased its ad-spends as a percentage of net sales. It has led to 130bps higher other expenditure as a percentage of net sales.

Segment-wise performance

Industrial coatings have continued to report healthy performance but slightly weaker growth compared to previous quarter. In our view, there is mild deceleration in revenue growth in industrial coatings with normalisation of base in automotive coatings. Decorative paint volumes were up in double-digits. We believe there were higher sales of low-priced products such as putty and primer and/or there is slightly higher channel inventory push at end of Mar'24.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	75,427	78,014	84,620	93,482
EBITDA	8,180	10,277	10,126	10,709
EBITDA Margin (%)	10.8	13.2	12.0	11.5
Net Profit	4,685	6,616	6,399	6,822
EPS (INR)	5.8	8.2	7.9	8.4
EPS % Chg YoY	36.5	41.2	(3.3)	6.6
P/E (x)	49.6	35.1	36.3	34.1
EV/EBITDA (x)	27.7	21.0	21.0	19.7
RoCE (%)	10.1	11.5	9.9	9.7
RoE (%)	10.8	13.0	11.0	10.9

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Market Data

Market Cap (INR)	232bn
Market Cap (USD)	2,786mn
Bloomberg Code	KNPL IN
Reuters Code	KANE.BO
52-week Range (INR)	357 /256
Free Float (%)	25.0
ADTV-3M (mn) (USD)	1.5

Price Performance (%)	3m	6m	12m
Absolute	(15.6)	(5.7)	10.5
Relative to Sensex	(18.0)	(20.5)	(10.2)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(3.0)	(3.1)
EBITDA	(9.3)	(9.6)
EPS	(10.0)	(9.9)

Previous Reports

06-02-2024: [Q3FY24 results review](#)

02-11-2023: [Q2FY24 results review](#)

Benefits of investments visible

The company had increased the investments in distribution, innovation and brand building. We believe the company has reported 10% volume growth in decorative paints for second successive quarter which indicates it has likely gained market shares in low priced paints such as putty, primer. We believe the increase in investments is crucial given the intensifying competitive pressures.

Forecasts, Valuations, Stock view

We believe Kansai is likely to be relatively protected from steep competitive pressures in decorative paints as it generates 45% of revenues from Industrial paints. With recovery in infrastructure spends, capex cycle and automotive production, we model Industrial paints to maintain healthy growth and profitability. We maintain ADD rating with DCF based revised TP of INR 305 (implied P/E of 36x FY26E). Historically, the stock has traded at average one-year forward P/E of 40x.

Key risks

Higher raw material prices, failure of new product launches and steep increase in competitive pressures are key risks to our estimates.

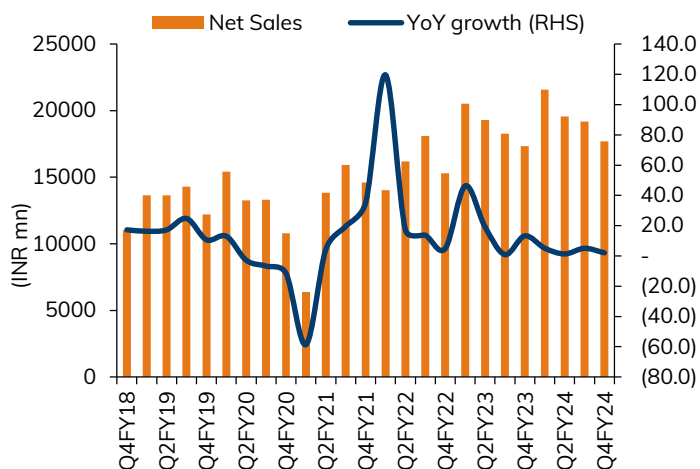
Exhibit 1: Q4FY24 financial performance

INR mn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	FY24	FY23	% YoY
Net revenues	17,694	17,336	2.1	19,187	(7.8)	78,014	75,427	3.4
Raw materials	11,615	11,806	(1.6)	12,266	(5.3)	50,441	52,643	(4.2)
% of sales	66%	68%	-246 bps	64%	172 bps	65%	70%	-514 bps
Employee costs	1,158	1,008	14.8	1,171	(1.2)	4,486	3,771	19.0
% of sales	6.5%	5.8%	73 bps	6.1%	44 bps	5.8%	5.0%	75 bps
Other expenditure	3,131	2,841	10.2	3,310	(5.4)	12,810	10,834	18.2
% of sales	18%	16%	131 bps	17%	45 bps	16%	14%	206 bps
Total expenditure	15,904	15,655	1.6	16,747	(5.0)	67,737	67,247	0.7
EBITDA	1,790	1,681	6.5	2,440	(26.6)	10,277	8,180	25.6
EBITDA margin (%)	10.1%	9.7%	42 bps	12.7%	-260 bps	13.2%	10.8%	233 bps
Other income	325	97	235.4	201	61.6	919	260	253.7
PBDIT	2,115	1,778	19.0	2,641	(19.9)	11,196	8,440	32.7
Depreciation	480	458	4.7	484	(1.0)	1,905	1,801	5.8
PBIT	1,636	1,320	23.9	2,157	(24.2)	9,291	6,639	40.0
Interest	70	68	3.2	75	(6.0)	292	290	0.7
PBT	1,566	1,252	25.0	2,082	(24.8)	8,999	6,349	41.7
Tax	423	290	45.9	561	(24.7)	2,384	1,664	43.2
% of PBT	27%	23%	386 bps	27%	4 bps	26%	26%	27 bps
PAT	1,143	962	18.8	1,521	(24.9)	6,616	4,685	41.2
Minority Interest	(24)	23		(22)		(102)	(53)	
Extraordinary items	(49)	9		(5)		5,105	102	
Reported PAT	1,118	948	17.9	1,537	(27.3)	11,823	4,839	144.3
Adjusted PAT	1,143	962	18.8	1,521	(24.9)	6,616	4,685	41.2

Source: Company data, I-Sec research

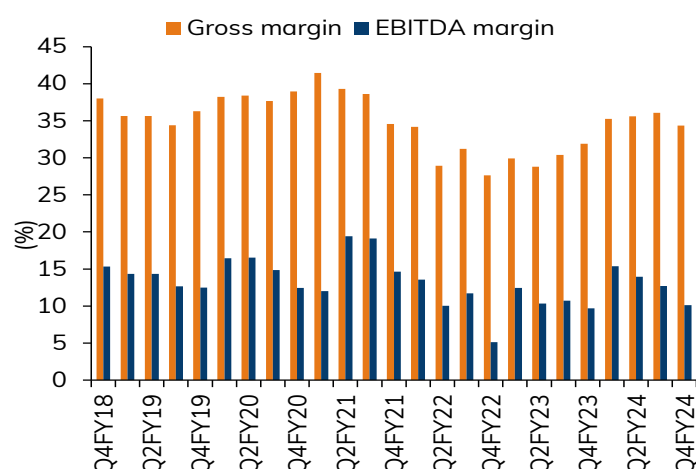
Operational highlights (Quarterly)

Exhibit 2: Revenues and growth rates



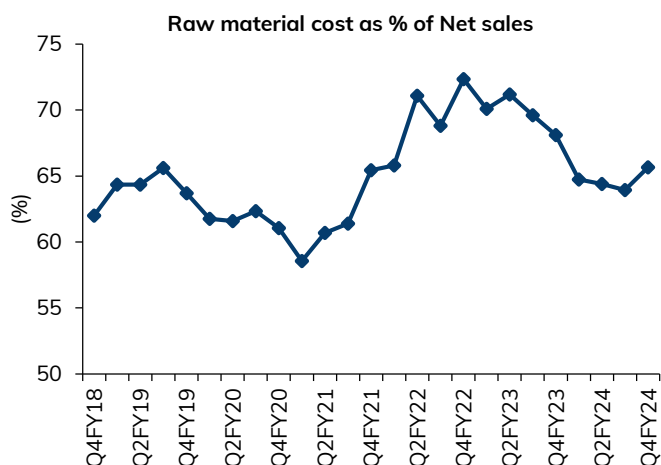
Source: Company data, I-Sec research

Exhibit 3: Gross and EBITDA margins



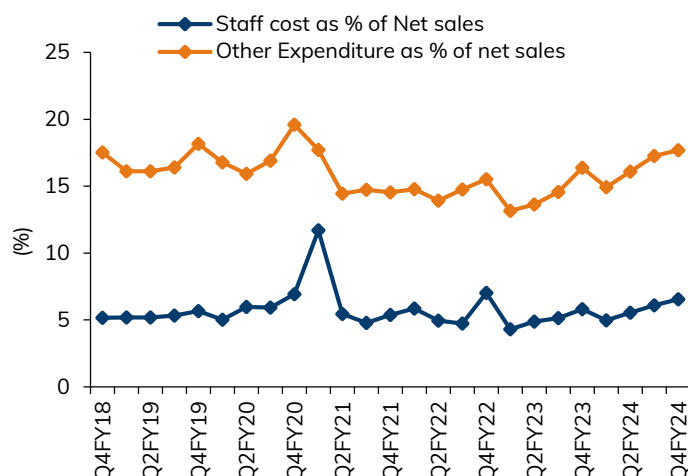
Source: Company data, I-Sec research

Exhibit 4: Raw material cost



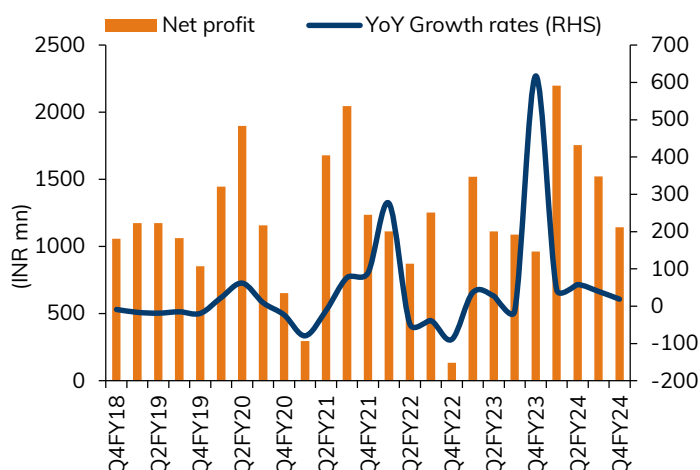
Source: Company data, I-Sec research

Exhibit 5: Staff and other expenditure



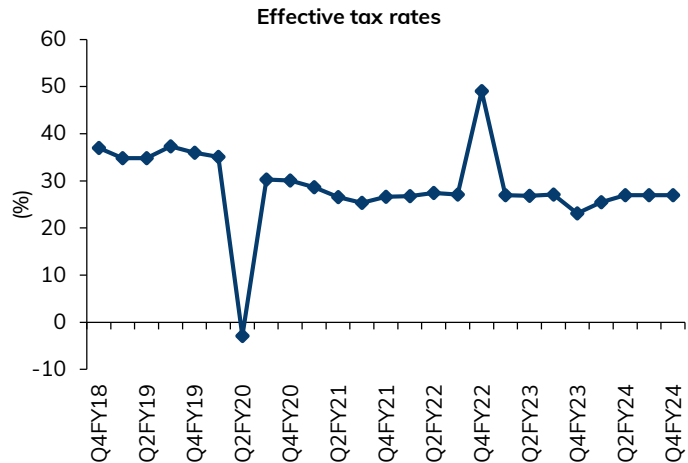
Source: Company data, I-Sec research

Exhibit 6: Net profit and growth rates



Source: Company data, I-Sec research

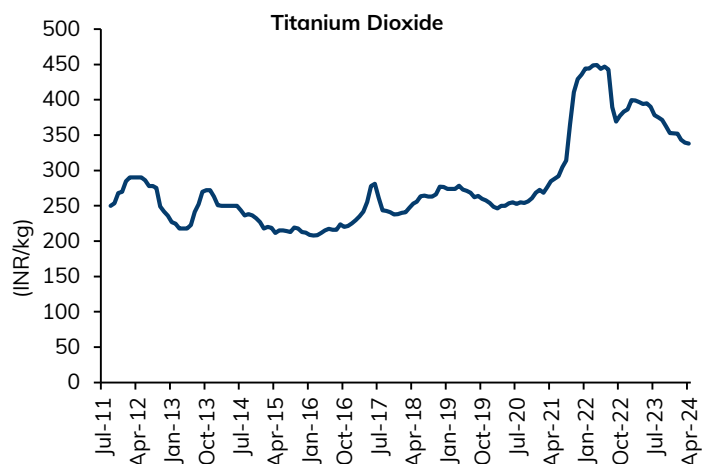
Exhibit 7: Effective tax rate



Source: Company data, I-Sec research

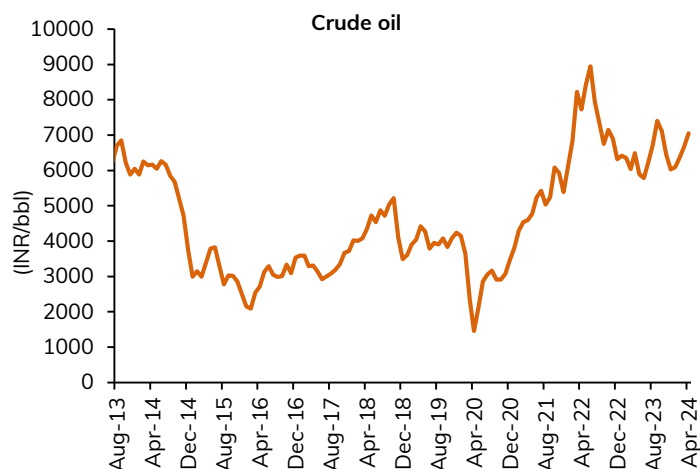
Key raw material prices

Exhibit 8: Titanium di-oxide



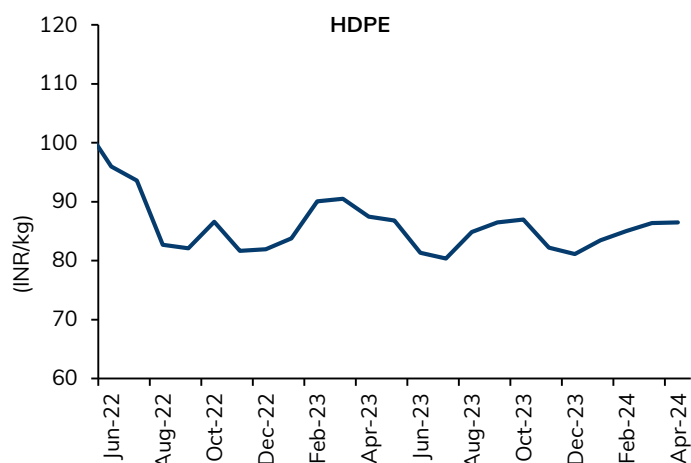
Source: Company data, I-Sec research

Exhibit 9: Crude oil



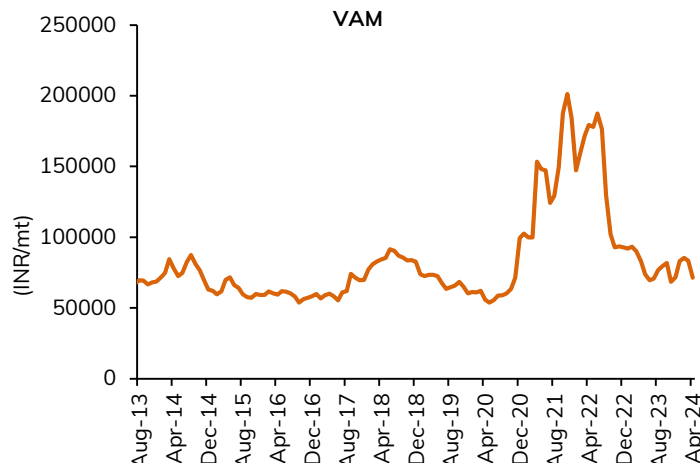
Source: Company data, I-Sec research

Exhibit 10: Packaging material - HPDE



Source: Company data, I-Sec research

Exhibit 11: VAM prices



Source: Company data, I-Sec research

Exhibit 12: Mean P/E and standard deviation



Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	75.0	75.0	75.0
Institutional investors	16.2	16.1	16.3
MFs and other	3.9	3.6	3.4
FIs/ Banks	-	-	-
Insurance Cos.	8.0	8.2	8.1
FII's	4.3	4.3	4.8
Others	8.8	8.9	8.7

Source: Bloomberg, I-Sec research

Exhibit 14: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	75,427	78,014	84,620	93,482
Operating Expenses	14,605	17,296	19,781	22,028
EBITDA	8,180	10,277	10,126	10,709
EBITDA Margin (%)	10.8	13.2	12.0	11.5
Depreciation & Amortization	1,801	1,905	2,068	2,226
EBIT	6,379	8,373	8,058	8,484
Interest expenditure	290	292	270	270
Other Non-operating Income	260	919	764	903
Recurring PBT	6,349	8,999	8,552	9,117
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,664	2,384	2,152	2,295
PAT	4,685	6,616	6,399	6,822
Less: Minority Interest	(53)	(102)	(60)	(60)
Extraordinaries (Net)	102	5,105	-	-
Net Income (Reported)	4,839	11,823	6,459	6,882
Net Income (Adjusted)	4,685	6,616	6,399	6,822

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	33,050	34,262	40,432	45,905
of which cash & cash eqv.	1,269	2,600	6,093	7,974
Total Current Liabilities & Provisions	13,513	14,149	15,347	16,954
Net Current Assets	19,536	20,113	25,086	28,951
Investments	7,803	16,489	16,489	16,489
Net Fixed Assets	20,882	21,622	22,554	23,329
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,131	1,526	-	-
Total Intangible Assets	198	198	198	198
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	49,550	59,949	64,327	68,966
Liabilities				
Borrowings	2,827	2,700	2,700	2,700
Deferred Tax Liability	1,119	1,262	1,262	1,262
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	539	808	808	808
Reserves & Surplus	44,798	55,017	59,395	64,035
Total Net Worth	45,337	55,826	60,204	64,843
Minority Interest	267	160	160	160
Total Liabilities	49,550	59,949	64,327	68,966

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	21,568	19,565	19,187	17,694
% growth (YOY)	5.1%	1.3%	5.0%	2.1%
EBITDA	3,315	2,732	2,440	1,790
Margin %	15.4%	14.0%	12.7%	10.1%
Other Income	172	220	201	325
Extraordinaries	5,159	0	(5)	(49)
Adjusted Net Profit	2,198	1,755	1,521	1,143

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	6,080	9,418	6,989	7,063
Working Capital Changes	(460)	754	(1,479)	(1,984)
Capital Commitments	(1,806)	(3,040)	(1,474)	(3,000)
Free Cashflow	4,274	6,378	5,515	4,063
Other investing cashflow	(3,123)	(8,686)	-	-
Cashflow from Investing Activities	(4,929)	(11,726)	(1,474)	(3,000)
Issue of Share Capital	859	6,798	0	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(347)	(127)	-	-
Dividend paid	(1,455)	(3,032)	(2,021)	(2,183)
Others	-	-	-	-
Cash flow from Financing Activities	(942)	3,639	(2,021)	(2,183)
Chg. in Cash & Bank balance	209	1,331	3,494	1,881
Closing cash & balance	1,269	2,600	6,093	7,974

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	5.8	8.2	7.9	8.4
Adjusted EPS (Diluted)	5.8	8.2	7.9	8.4
Cash EPS	8.0	10.5	10.5	11.2
Dividend per share (DPS)	1.8	3.8	2.5	2.7
Book Value per share (BV)	56.1	69.1	74.5	80.2
Dividend Payout (%)	31.1	45.8	31.6	32.0
Growth (%)				
Net Sales	18.4	3.4	8.5	10.5
EBITDA	26.0	25.6	(1.5)	5.8
EPS (INR)	36.5	41.2	(3.3)	6.6
Valuation Ratios (x)				
P/E	49.6	35.1	36.3	34.1
P/CEPS	35.8	27.3	27.5	25.7
P/BV	5.1	4.2	3.9	3.6
EV / EBITDA	27.7	21.0	21.0	19.7
P / Sales	3.1	3.0	2.7	2.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	30.2	35.3	35.3	35.0
EBITDA Margins (%)	10.8	13.2	12.0	11.5
Effective Tax Rate (%)	26.2	26.5	25.2	25.2
Net Profit Margins (%)	6.2	8.5	7.6	7.3
Net Debt / Equity (x)	(0.1)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(0.8)	(1.6)	(2.0)	(2.0)
Fixed Asset Turnover (x)	2.2	2.1	2.1	2.2
Working Capital Days	87	81	81	81
Inventory Turnover Days	91	80	82	83
Receivables Days	65	64	65	66
Payables Days	16	14	14	14
Profitability Ratios				
RoCE (%)	10.1	11.5	9.9	9.7
RoE (%)	10.8	13.0	11.0	10.9
RoIC (%)	10.1	11.5	9.9	9.7

Source Company data, I-Sec research

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