

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.

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuvania

karan.bhuvania@icicisecurities.com

Nilesh Patil

nilesh.patil@icicisecurities.com

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)

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

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.

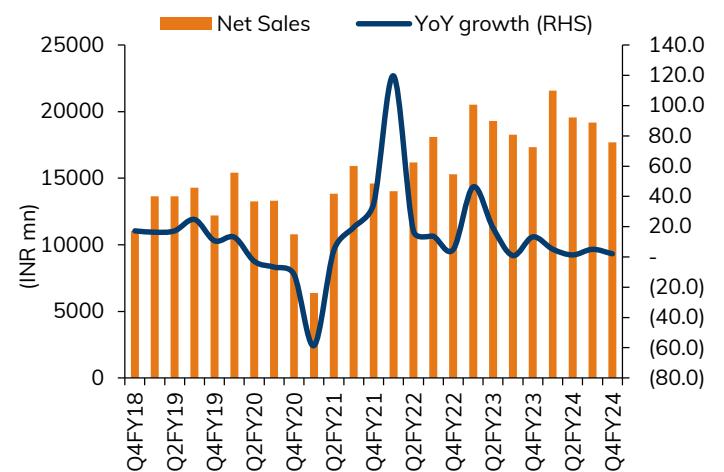
Exhibit 1: Q4FY24 financial performance

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

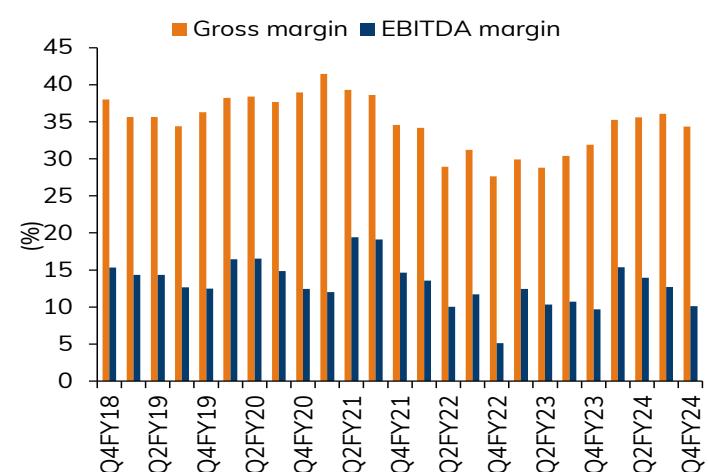
Operational highlights (Quarterly)

Exhibit 2: Revenues and growth rates



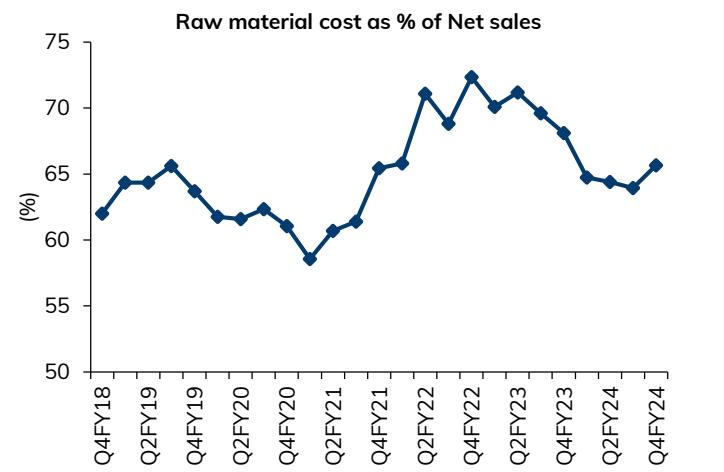
Source: Company data, I-Sec research

Exhibit 3: Gross and EBITDA margins



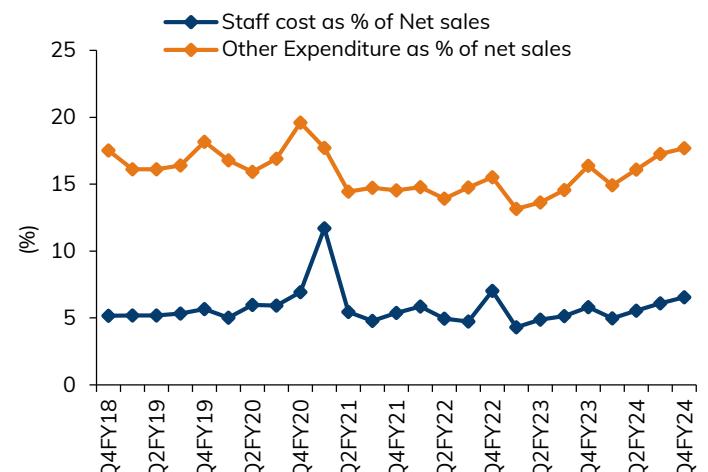
Source: Company data, I-Sec research

Exhibit 4: Raw material cost



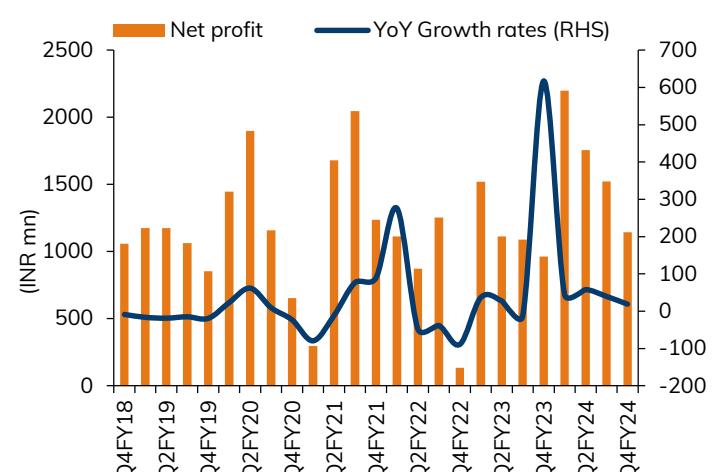
Source: Company data, I-Sec research

Exhibit 5: Staff and other expenditure



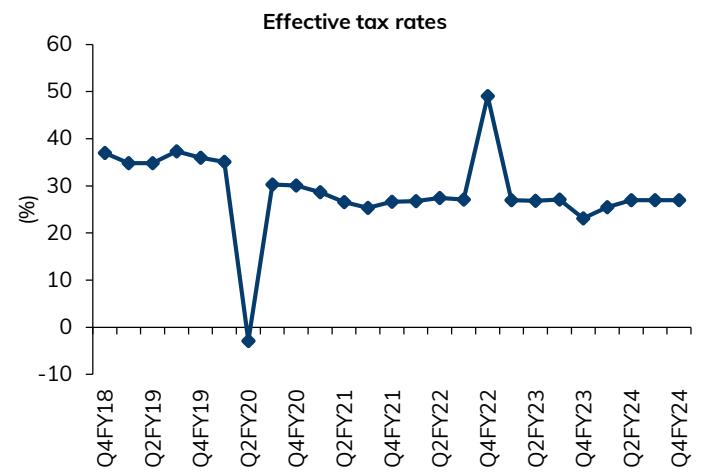
Source: Company data, I-Sec research

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

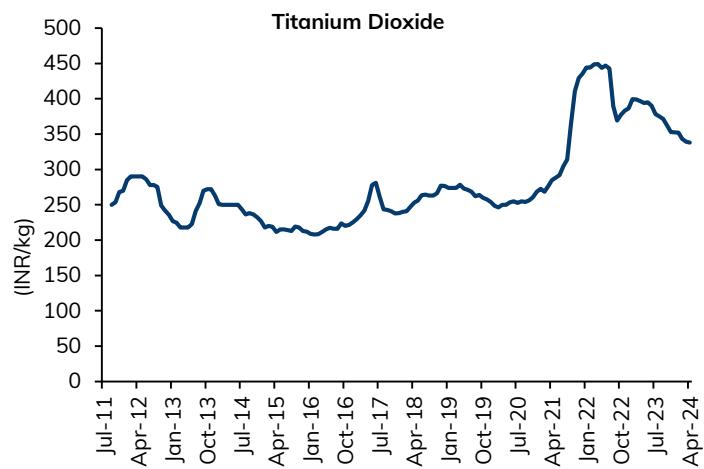
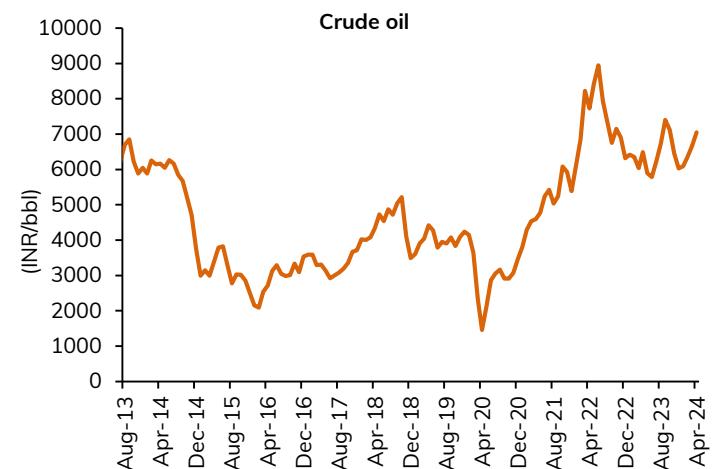
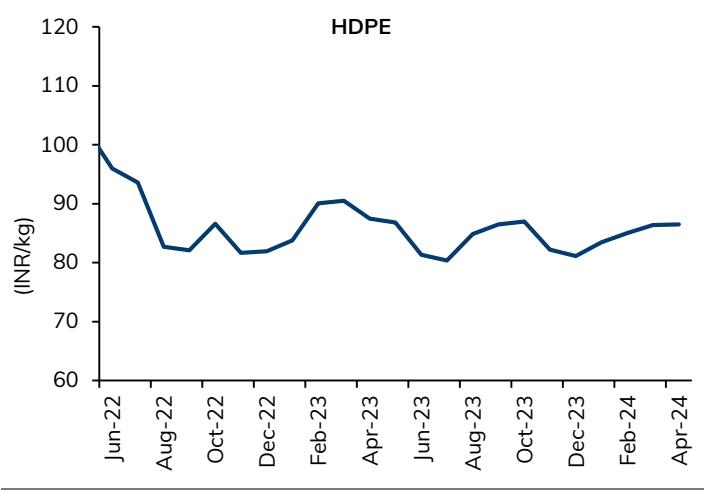
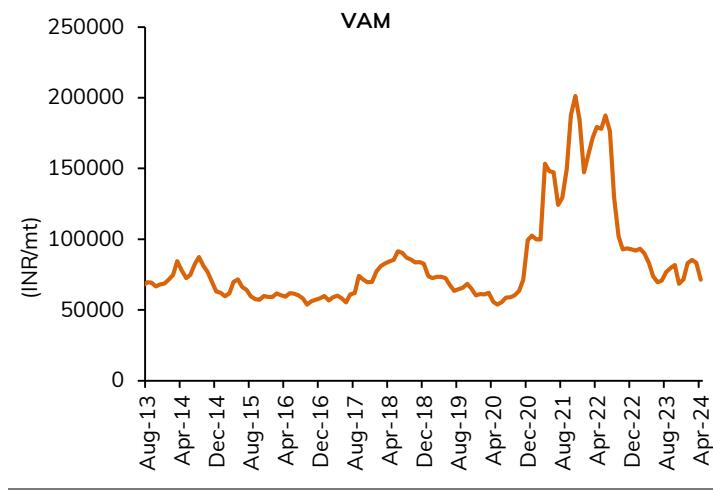
Exhibit 8: Titanium di-oxide

Exhibit 9: Crude oil

Exhibit 10: Packaging material - HPDE

Exhibit 11: VAM prices

Exhibit 12: Mean P/E and standard deviation


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	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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Aniruddha Joshi, CA; Manoj Menon, MBA, CMA; Karan Bhuwania, MBA; Nilesh Patil, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
