

Retail Equity Research

Kansai Nerolac Paints Ltd.

Paints

BSE CODE : 500165 NSE CODE: KANSAINER
BLOOMBERG CODE: KNPL:IN SENSEX : 81,868

BUY

12Months Investment Period

Rating as per Mid Cap

CMP Rs. 305 TARGET Rs. 355 RETURN 16% ↑
(Closing: 01-08-2024)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Better product mix will colour the margins...

Kansai Nerolac Paints Ltd (KNPL) is the market leader in industrial paints and the third largest decorative paint company in India.

- In Q1FY25, revenue de-grew by -1.1% due to muted decorative demand on account of heatwaves and election. The decorative volumes grew by mid single digit and expects to grow in high single digit in FY25.
- Gross margin improved by 155bps YoY to 36.8% aided by benign input prices and a better product mix, while EBITDA margin remained flat at 15.5%.
- The company has taken a price hike of 1.5-2% and hinted for further price hike in coming months to mitigate input price inflation and guided for ~13.5% margin in FY25.
- Auto segment did well in Q1, aided by 2W, PVs, and KNPL expect volume to grow by ~7% in Q1FY25.
- Improving margins due to superior product mix and a resurgence in industrial paint business keep the outlook positive. Therefore, we revise our rating to BUY and value KNPL at 33x on FY26E EPS with a target price of Rs. 355.

Healthy product mix supports margins...

Despite an increase in oil prices in Q1FY25, KNPLs gross margin improved by 155bps YoY to 36.8% (improved 246bps QoQ) largely due to superior product mix and a resurgence in industrial paint demand post election. While higher promotional activity (4.9% of sales) and staff costs (16% YoY) restricted EBITDA at 15.5% vs 15.4% in Q1FY24. The company has taken a price hike of 1.5-2% and hinted for further hikes in coming months to mitigate the input cost pressure. The company mentioned that the entry of new player has not created much impact and the management is moving ahead with its strategies. We marginally improved FY25/FY26 margin estimate by 10bps YoY and 20 bps YoY to 13.5%/13.7%, respectively.

Mid-single digit volume growth...

The company reported -1.1% de-growth in top-line in Q1FY25 due to severe heat wave and election. The volume growth was subdued at ~5% while the industrial segment, automotive coating saw good demand, especially in 2W and PVs. KNPL expects 8 -9% volume growth in FY25 aided by a resurgence in auto demand and decorative business on account of upcoming festival season. The decorative paint contribute 55% of the overall sales mix while 45% is from industrial segment and with in that, 70% is from auto. KNPL enjoys a 60% market share in auto paints over the last 2-3 years.

Key highlights...

- The outlook for decorative paints is better for H2FY25 due to strong urban demand and some green shoots in rural spending.
- KNPL is looking to add over 30% capacity in water based paints. The Q1FY25 capacity utilisation is at 60%.
- Advertisement expenses were 4.9% of sales in FY24 and Q1FY25.

Valuation and Outlook

We expect the company can withstand the current competition in the decorative paints with its product mix and the resurgent demand in the industrial segment (45% of the mix). We therefore revise our rating to BUY from HOLD with a target price of Rs. 355, based on a P/E of 33x on FY26E EPS.

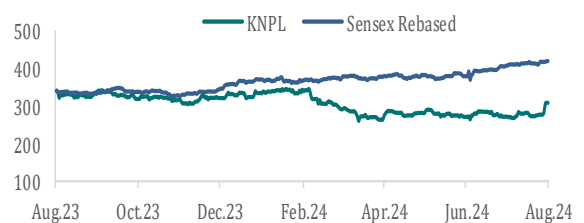
Company Data

Market Cap (cr)	₹ 16,437
Enterprise Value (cr)	₹ 16,329
Outstanding Shares (cr)	53.9
Free Float	25.0%
Dividend Yield	0.84%
52 week high	₹ 355
52 week low	₹ 252
6m average volume (cr)	0.65
Beta	0.45
Face value	₹ 1

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	75.0	75.0	75.0
FII's	4.3	4.7	5.1
MFs/Insti	11.8	11.6	10.7
Public	8.9	8.7	9.2
Total	100.0	100.0	100.0
Promoter Pledge (%)	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	8%	-10%	-9.4%
Absolute Sensex	10%	13%	23%
Relative Return*	-2%	-23%	-32%

*over- or underperformance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	7,801	8,627	9,576
Growth (%)	3.4	10.6	11.0
EBITDA	1,028	1,165	1,312
EBITDA Margin (%)	13.2	13.5	13.7
PAT Adj.	515	764	869
Growth (%)	9.8	48.4	13.8
Adj.EPS	6.4	9.4	10.7
Growth (%)	9.8	48.4	13.8
P/E	47.9	32.3	28.4
P/B	5.1	4.5	4.0
EV/EBITDA	15.1	13.3	11.5
ROE (%)	10.9	14.8	14.9
D/E	0.0	0.0	0.0

Antu Eapen Thomas
Research Analyst



Quarterly Financials (Consolidated)

Profit & Loss

Rs cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Sales	2,133	2,157	-1.1	1,769	20.6
EBITDA	330	332	-0.6	179	84.1
EBITDA margins (%)	15.5	15.4	8bps	10.1	534bps
Depreciation	48	47	3.1	48	0.4
EBIT	281	285	-1.2	131	114.8
Interest	7	7	1.3	7	2.7
Other Income	34	17.2		32.5	4.0
Exceptional Items	-	661	0.0	-	0.0
PBT	308	956	-67.8	157	96.8
Tax	83	222	-62.5	42	96.9
Reported PAT	225	734	-69.4	114	96.8
Adjustments	-	661	0.0	-	0.0
Adj PAT	225	73	209.1	114	96.8
No. of Shares	54	54		54	
EPS (Rs)	3	1	209.1	1	96.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	8,553	9,494	8,627	9,576	0.9	0.9
EBITDA	1,146	1,282	1,165	1,312	1.6	2.3
Margins (%)	13.4	13.5	13.5	13.7	10bps	20bps
Adj. PAT	714	802	764	869	7	8
EPS	8.8	9.9	9.4	10.7	7	8

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	6,369	7,543	7,801	8,627	9,576
% change	25.5	18.4	3.4	10.6	11.0
EBITDA	649	818	1,028	1,165	1,312
% change	-24.8	26.0	25.6	13.3	12.6
Depreciation	170	180	190	206	229
EBIT	480	638	837	958	1083
Interest	29	29	29	33	37
Other Income	25	26	92	100	120
PBT	476	635	1,561	1,025	1,166
% change	-33.1	33.3	145.9	-34.3	13.8
Tax	133	166	385	261	297
Tax Rate (%)	28	26	25	26	26
Reported PAT	343	468	1,176	764	869
Adj*	0.0	0.0	661.3	0.0	0.0
Adj PAT	343	468	515	764	869
% change	-34.7	36.5	9.8	48.4	13.8
No. of shares (cr)	81	81	81	81	81
Adj EPS (Rs.)	4.2	5.8	6.4	9.4	10.7
% change	-35	37	10	48	14
DPS (Rs.)	2.1	2.1	2.1	2.1	2.1

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	513	649	1,366	970	1,098
Non-cash adj.	-61	3	-37	25	17
Changes in W.C	-426	-236	-103	-607	-429
C.F. Operation	25	408	1227	388	686
Capital exp.	-219	-123	-90	-100	-100
Change in inv.	473	-113	-200	-200	-200
Other invest.CF	-5	9	66	8	20
C.F - Investment	250	-227	-224	-292	-280
Issue of equity	-34	-37	0	0	0
Issue/repay debt	27	-22	15	15	15
Dividends paid	-284	-55	-169	-169	-169
Other finance.CF	-18	-19	-615	-33	-37
C.F - Finance	-309	-133	-769	-187	-190
Chg. in cash	-35	49	234	-91	216
Closing cash	106	127	361	270	486

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	106	127	361	270	486
Accounts Receivable	1,093	1,238	1,325	1,654	1,889
Inventories	1,630	1,729	1,727	1,920	2,217
Other Cur. Assets	192	211	224	248	275
Investments	211	502	702	902	1,102
Gross Fixed Assets	2,922	3,122	3,222	3,322	3,422
Net Fixed Assets	1,950	2,071	1,905	1,799	1,669
CWIP	225	113	100	100	100
Intangible Assets	47	37	40	40	40
Def. Tax (Net)	-	-	-	-	-
Other Assets	257	279	299	326	362
Total Assets	5,709	6,306	6,683	7,260	8,140
Current Liabilities	1,248	1,474	1,475	1,436	1,595
Provisions	-	-	-	-	-
Debt Funds	203	160	175	190	205
Other Liabilities	126	139	154	159	165
Equity Capital	81	81	81	81	81
Reserves & Surplus	4,051	4,453	4,799	5,394	6,093
Shareholder's Fund	4,132	4,534	4,880	5,474	6,174
Total Liabilities	5,709	6,306	6,683	7,260	8,140
BVPS (Rs.)	51	56	60	67	76

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	10.2	10.8	13.2	13.5	13.7
EBIT margin (%)	7.5	8.5	10.7	11.1	11.3
Net profit mgn.(%)	5.4	6.2	6.6	8.9	9.1
ROE (%)	8.4	10.8	10.9	14.8	14.9
ROCE (%)	8.7	8.1	8.4	11.1	11.2
W.C & Liquidity					
Receivables (days)	58.7	56.4	60.0	63.0	67.5
Inventory (days)	81.0	81.3	80.9	77.2	78.8
Payables (days)	69.7	62.5	70.5	64.8	59.9
Current ratio (x)	2.2	2.3	2.6	3.1	3.3
Quick ratio (x)	0.8	0.8	1.0	1.2	1.3
Turnover & Leverage					
Gross asset T.O (x)	2.3	2.5	2.5	2.6	2.8
Total asset T.O (x)	1.1	1.3	1.2	1.2	1.2
Int. coverage ratio (x)	16.8	22.0	28.7	28.7	29.6
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.6	2.1	2.0	1.8	1.6
EV/EBITDA (x)	25.1	19.5	15.1	13.3	11.5
P/E (x)	71.9	52.6	47.9	32.3	28.4
P/BV (x)	6.0	5.4	5.1	4.5	4.0

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
25-Oct-2021	Buy	438
07-Feb-2022	Accumulate	403
19-Aug-2022	Accumulate	378
06-Dec-2022	Accumulate	333
12-May-2023	Accumulate	301
31-Aug-2023	BUY	388
23-Nov-2023	Accumulate	359
01-Apr-2024	HOLD	288
02-Aug-2024	BUY	355

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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