

**BUY**

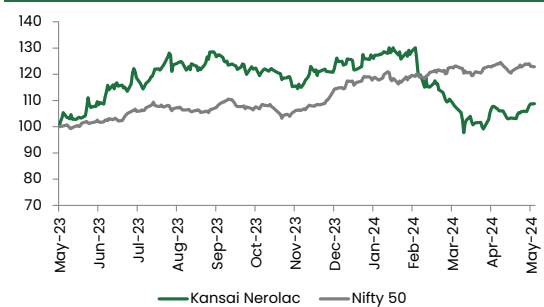
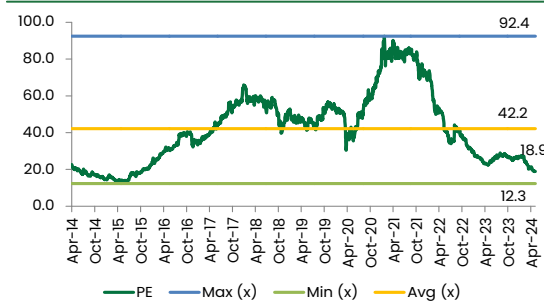
<b>CMP (Rs)</b>	<b>284</b>
<b>Target Price (Rs)</b>	<b>395</b>
<b>Potential Upside</b>	<b>39.1%</b>
<b>Sensex</b>	73,512
<b>Nifty</b>	22,303

**Key Stock data**

<b>BSE Code</b>	500165
<b>NSE Code</b>	KANSAINER
<b>Bloomberg</b>	KNPL:IN
<b>Shares o/s, Cr (FV 1)</b>	80.8
<b>Market Cap (Rs Cr)</b>	22,925
<b>3M Avg Volume</b>	418,375
<b>52 week H/L</b>	357/257

**Shareholding Pattern**

(%)	Sep-23	Dec-23	Mar-24
<b>Promoter</b>	75.0	75.0	75.0
<b>FII</b>	4.3	4.3	4.7
<b>DII</b>	11.9	11.8	11.6
<b>Others</b>	8.8	8.9	8.7

**1 year relative price performance**

**1 year P/E Forward (x)**

**Research Analyst**
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**Mixed numbers but decent outlook ahead**

Q4FY24 Result Update | Sector: Paint | May 08, 2024

**Mixed topline for the quarter:** Kansai Nerolac Q4FY24 revenue grew by 2.1% YoY but declined by 7.8% QoQ to Rs 1,769.4cr. Decorative business has delivered double digit volume growth however slower pickup in rural and mixed industrial segment performance impacted the topline to certain extent. For FY24, its revenue increased by 3.4% YoY to Rs 7,801.4cr driven by a mix of both decorative & industrial segments.

**Margins improved YoY but remain subdued sequentially:** Its gross profit improved by 9.9% YoY to Rs 607.9cr while gross margin was higher by 246bps YoY due to stability in raw materials prices and favorable mix. Further, despite increase in overall cost, its EBITDA grew by 6.5% YoY to Rs 179cr with improvement in margins by 42bps to 10.1%. On the sequential front, its gross profit growth was muted as it declined by 12.2% and margins declined by 172bps while EBITDA declined by 26.6% and margin declined by 260bps due to increase in overall cost as well as increase in marketing spends.

**Key highlights:** 1) The company launched 15+ new products and 4 in Paint+ category, 4 New Products in Construction Chemical and 7 in Wood Finish. 2) Paint as a service was scaled to 250+ cities and 5000+ sites per month. 3) Have introduced Nxt Gen Paint services for users online. 4) Royalties paid to parent is ~5% of revenue of the specified products. 5) Demand for North and West were good and strong while South and East, the presence is low and the company will look for the opportunities, if any. 6) Rural is witnessing some recovery in the B2B segment while B2C recovery is expected soon. 7) Healthy investment is made towards digital & communication to consumers. 8) Amongst industrial, Passenger & 2W is expected to improve while CV & tractor to be muted. 9) For decorative, volume is strong but price correction impacted top line growth. Ahead as well, double digit volume growth from this segment is expected. 10) Industrial & Decorative mix was between 50-52% & 45-48%, respectively. 11) The company is expanding via greenfield in Vizag and via brownfield in Jaipur. 12) They added 9 Depots in FY24 to strengthen the distribution network and the total now stands at 112 Depots. 13) Management remains positive on the growth and expects volumes to grow in the range of 8-10% and margins to remain in the range of 13-14% for FY25.

**Outlook & Valuation:** Kansai Nerolac posted mixed numbers for the quarter however they expect medium to long term growth to improve largely post elections driven by demand for both decorative & industrial segments, continuous innovation of products & categories and also their focus on gearing up distribution channels as well as increasing presence in South India. Cost fluctuation will be key monitorable, while management expects steady volume and margins for the near future. On the financial front, we expect its revenue/EBITDA to grow at a CAGR of 11.4%/16.9% over FY24-26 and maintain strong **Buy** with target price of **Rs 395**, as we believe market share gain in industrial will continue along with strong demand for decorative segment.

**Financial Summary - consolidated**

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net revenue	7,543	7,801	8,426	9,689
EBITDA	818	1,028	1,170	1,404
EBITDAM (%)	10.8	13.2	13.9	14.5
APAT	468	1,176	757	924
APATM (%)	6.2	15.1	9.0	9.5
EPS (Rs)	8.7	14.6	9.4	11.4
PE (x)	32.7	19.5	30.3	24.8
RoE (%)	10.3	12.4	12.2	13.2

Source : RBL Research

*Net Sales driven by decorative segment*

*Mixed performance on margins*

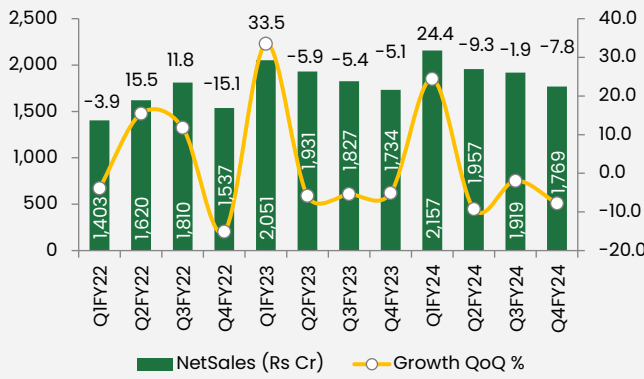
#### P&L Account Quarterly - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
<b>Net Sales</b>	<b>1,769.4</b>	<b>1,733.6</b>	<b>2.1</b>	<b>1,918.7</b>	<b>(7.8)</b>
Cost of Raw Materials	1,104.0	1,092.3	1.1	1,116.1	(1.1)
Purchase of Finished Goods	124.2	107.1	15.9	130.1	(4.6)
(Increase) / Decrease In	(66.8)	(18.8)	-	(19.7)	-
<b>Total Raw material cost</b>	<b>1,161.5</b>	<b>1,180.6</b>	<b>(1.6)</b>	<b>1,226.6</b>	<b>(5.3)</b>
<b>Gross Profit</b>	<b>607.9</b>	<b>553.0</b>	<b>9.9</b>	<b>692.2</b>	<b>(12.2)</b>
Gross Margins %	34.4	31.9	246bps	36.1	-172bps
Employee Cost	115.8	100.8	14.8	117.1	(1.2)
Other Expense	313.1	284.1	10.2	331.0	(5.4)
<b>Expenditure</b>	<b>428.9</b>	<b>384.9</b>	<b>11.4</b>	<b>448.2</b>	<b>(4.3)</b>
<b>EBITDA</b>	<b>179.0</b>	<b>168.1</b>	<b>6.5</b>	<b>244.0</b>	<b>(26.6)</b>
EBITDA Margins (%)	10.1	9.7	42bps	12.7	-260bps
Depreciation	48.0	45.8	4.7	48.4	(1.0)
EBIT	131.1	122.3	7.1	195.6	(33.0)
Other Income	32.5	9.7	235.4	20.1	61.6
Interest	7.0	6.8	3.2	7.5	(6.0)
PBT (after Exceptional)	156.6	125.2	25.0	208.2	(24.8)
Tax	42.3	29.0	45.9	56.1	(24.7)
<b>PAT (Reported)</b>	<b>114.3</b>	<b>96.2</b>	<b>18.8</b>	<b>152.1</b>	<b>(24.9)</b>
PAT Margin (%)	6.5	5.6	91bps	7.9	-147bps

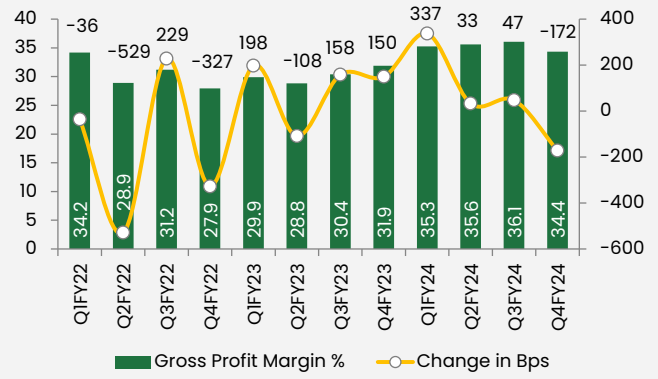
Source : RBL Research

Story in charts

Net Sales grew by 2.1% YoY but de-grew by 7.8% QoQ

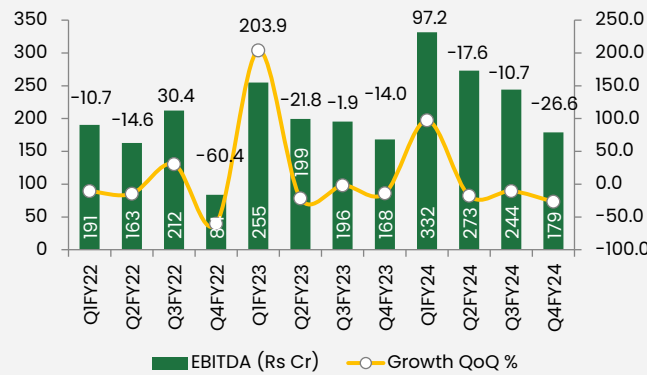


Gross margin improved by 246bps YoY but down by 172bps QoQ

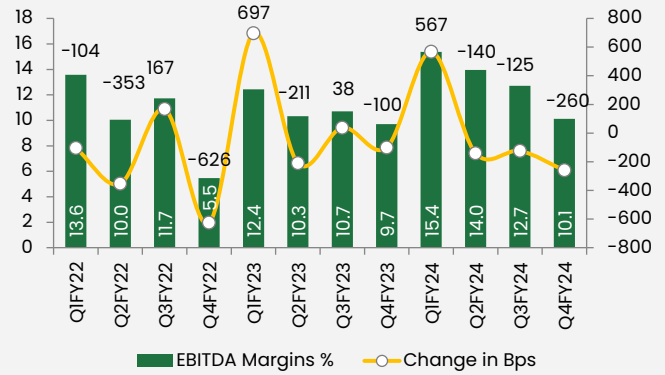


Source : RBL Research

EBITDA increased by 6.5% YoY but decreased by 26.6% QoQ

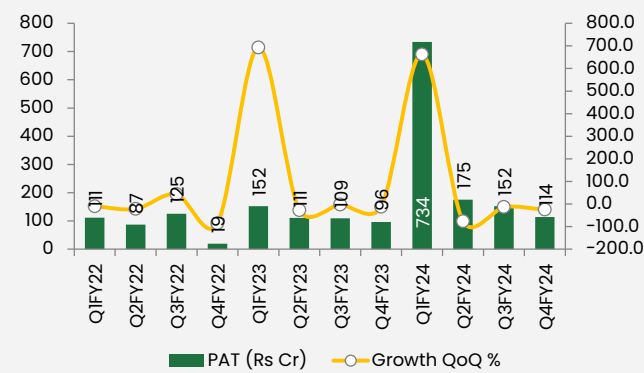


EBITDA margin improved by 42bps YoY but decreased by 260bps QoQ

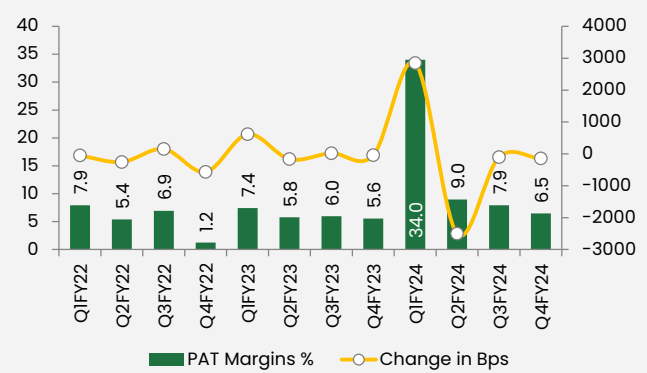


Source : RBL Research

PAT increased by 18.8% YoY but declined by 24.9% QoQ



PAT margin improved by 91bps YoY but down by 147bps QoQ



Source : RBL Research

## P&amp;L Account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>7,543</b>	<b>7,801</b>	<b>8,426</b>	<b>9,689</b>
<b>Expenditure</b>				
Cost of materials	4,889	4,556	4,887	5,581
Purchase of stock in trade	470	487	514	581
(Increase) / Decrease In Stocks	(95)	1	1	1
<b>Total raw materials</b>	<b>5,264</b>	<b>5,044</b>	<b>5,402</b>	<b>6,163</b>
<b>Gross Profit</b>	<b>2,278</b>	<b>2,757</b>	<b>3,024</b>	<b>3,526</b>
Gross Margins %	30.2	35.3	35.9	36.4
Employee cost	377	449	480	552
Other expenses	1,083	1,281	1,373	1,570
<b>EBITDA</b>	<b>818</b>	<b>1,028</b>	<b>1,170</b>	<b>1,404</b>
EBITDAM (%)	10.8	13.2	13.9	14.5
Depreciation	180	190	203	223
PBIT	638	837	967	1,181
Other income	26	92	99	114
Interest expenses	29	29	29	30
PBT	635	900	1,038	1,265
Tax	166	385	280	342
<b>Reported PAT</b>	<b>468</b>	<b>515</b>	<b>757</b>	<b>924</b>
Exceptional Income / Expenses	-	661	-	-
<b>PAT (after Exceptional)</b>	<b>468</b>	<b>1,176</b>	<b>757</b>	<b>924</b>
PAT Margin %	6.2	15.1	9.0	9.5
EPS	8.7	14.6	9.4	11.4

Source : RBL Research

## Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Share Capital	54	81	81	81
Reserves & Surplus	4,480	5,502	6,114	6,892
<b>Total Shareholder's Fund</b>	<b>4,534</b>	<b>5,583</b>	<b>6,194</b>	<b>6,973</b>
Minority Interest	27	16	16	16
Long term borrowings	5	15	16	19
Short term borrowing	155	106	114	131
<b>Total Debt</b>	<b>160</b>	<b>121</b>	<b>130</b>	<b>150</b>
Deferred tax liabilities	112	126	136	157
Long term provision	23	24	26	30
Other long term liabilities	100	125	135	156
<b>Total</b>	<b>235</b>	<b>276</b>	<b>298</b>	<b>342</b>
<b>Current Liabilities</b>				
Trade payables	1,016	1,096	1,183	1,361
Short term provisions	23	34	37	42
Other current liabilities	313	285	312	359
<b>Total</b>	<b>1,351</b>	<b>1,415</b>	<b>1,532</b>	<b>1,762</b>
<b>Total liabilities</b>	<b>6,306</b>	<b>7,410</b>	<b>8,170</b>	<b>9,242</b>
<b>Application of Assets</b>				
Net Block	2,088	2,166	2,273	2,364
Current work in process	113	149	149	149
Goodwill on consolidation	20	20	20	20
Non current investment	3	4	4	5
Tax assets	174	188	185	213
Other non-current assets	105	135	145	167
<b>Total</b>	<b>2,503</b>	<b>2,661</b>	<b>2,777</b>	<b>2,917</b>
<b>Current Assets</b>				
Current investments	498	1,323	1,429	1,643
Inventories	1,729	1,687	1,822	2,096
Trade receivables	1,238	1,335	1,442	1,658
Cash balance	105	172	457	550
Bank balance	22	88	88	88
Other current assets	211	144	155	291
<b>Total</b>	<b>3,803</b>	<b>4,749</b>	<b>5,393</b>	<b>6,325</b>
<b>Total assets</b>	<b>6,306</b>	<b>7,410</b>	<b>8,170</b>	<b>9,242</b>

Source : RBL Research

## Cashflow – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
<b>Profit before tax</b>	<b>635</b>	<b>1,561</b>	<b>1,038</b>	<b>1,265</b>
Add: Depreciation	180	190	203	223
Add: Interest cost	29	29	29	30
Less: Other Income /Interest Rec	(3)	(5)	(5)	(6)
Others	(11)	(714)	-	-
<b>Operating profit before working capital changes</b>	<b>831</b>	<b>1,062</b>	<b>1,265</b>	<b>1,512</b>
Changes in working capital	(236)	83	(123)	(400)
Cash from Operations	595	1,145	1,142	1,112
Less: Taxes	(187)	(242)	(280)	(342)
<b>Cash flow from Operations</b>	<b>408</b>	<b>903</b>	<b>862</b>	<b>771</b>
<b>Net cash used in Investing</b>				
Purchase of fixed assets	(123)	(237)	(311)	(313)
Purchase of investments	(2,785)	(5,157)	(106)	(215)
Sales of fixed assets	2,671	4,508	-	-
Other Income /Interest Received	3	5	5	6
Others	7	292	-	-
<b>Cash flow from investing</b>	<b>(227)</b>	<b>(590)</b>	<b>(412)</b>	<b>(522)</b>
<b>Cash flow from Financing</b>				
Purchase of borrowings	(22)	(43)	10	20
Dividend (Incl dividend tax)	(55)	(146)	(146)	(146)
Interest cost	(19)	(16)	(29)	(30)
Others	(37)	(45)	-	-
<b>Cash flow from Financing</b>	<b>(133)</b>	<b>(249)</b>	<b>(165)</b>	<b>(156)</b>
<b>Net cash Inflow/Outflow</b>	<b>49</b>	<b>65</b>	<b>285</b>	<b>93</b>
Opening cash	(11)	38	102	387
<b>Closing cash</b>	<b>38</b>	<b>102</b>	<b>387</b>	<b>480</b>
Other bank balance	90	158	158	158
<b>Total Closing Cash</b>	<b>127</b>	<b>260</b>	<b>545</b>	<b>638</b>

Source : RBL Research

## Key ratios – consolidated

Particulars	FY23	FY24	FY25E	FY26E
<b>Per share Data</b>				
EPS (Rs)	8.7	14.6	9.4	11.4
Book value per share (Rs)	84.1	69.1	76.7	86.3
Dividend per share (Rs)	1.0	1.8	1.8	1.8
Dividend Payout %	11.8	21.0	19.2	15.8
Dividend Yield %	0.4	0.6	0.6	0.6
<b>Profitability Ratios</b>				
EBITDAM(%)	10.8	13.2	13.9	14.5
PBTM (%)	8.4	11.5	12.3	13.1
NPM (%)	6.2	15.1	9.0	9.5
RoE (%)	10.3	12.4	12.2	13.2
RoCE (%)	13.6	14.7	15.3	16.6
<b>Efficiency Data</b>				
Interest Cover Ratio	22.0	28.7	33.7	39.4
Fixed Asset Ratio	0.3	0.3	0.3	0.2
Debtors (Days)	59.9	62.5	62.5	62.5
Inventory (Days)	83.7	78.9	78.9	78.9
Payable (Days)	49.1	51.3	51.3	51.3
WC (Days)	94.4	90.1	90.1	90.1
<b>Valuation</b>				
P/E (x)	32.7	19.5	30.3	24.8
P/BV	3.4	4.1	3.7	3.3
EV/EBITDA	18.8	22.3	19.3	16.1
EV/Sales	2.0	2.9	2.7	2.3

Source : RBL Research

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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