

February 6, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		ACCUMULATE	
Target Price	341		346	
Sales (Rs. m)	81,581	89,009	81,721	89,405
% Chng.	(0.2)	(0.4)		
EBITDA (Rs. m)	11,739	13,148	12,260	13,214
% Chng.	(4.3)	(0.5)		
EPS (Rs.)	9.7	10.9	10.2	11.0
% Chng.	(4.6)	(0.4)		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	70,810	74,716	81,581	89,009
EBITDA (Rs. m)	8,098	10,651	11,739	13,148
Margin (%)	11.4	14.3	14.4	14.8
PAT (Rs. m)	5,023	7,085	7,860	8,834
EPS (Rs.)	9.3	8.8	9.7	10.9
Gr. (%)	25.9	(6.0)	10.9	12.4
DPS (Rs.)	1.0	2.7	4.5	5.5
Yield (%)	0.3	0.8	1.3	1.6
RoE (%)	11.4	13.9	13.5	14.1
RoCE (%)	14.7	17.3	16.9	17.7
EV/Sales (x)	2.5	3.5	3.2	2.9
EV/EBITDA (x)	21.5	24.3	21.9	19.5
PE (x)	35.8	38.1	34.3	30.5
P/BV (x)	3.9	4.8	4.5	4.2

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.357 / Rs.247
Sensex / Nifty	72,186 / 21,929
Market Cap	Rs.270bn/ \$ 3,249m
Shares Outstanding	808m
3M Avg. Daily Value	Rs.140.63m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	4.28
Domestic Institution	11.84
Public & Others	8.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.9)	2.0	20.8
Relative	(1.1)	(7.1)	1.2

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Hasti Savla

hastisavla@plindia.com |

Vishwa Solanki

vishwasolanki@plindia.com | 91-22-66322244

Developing market dynamics key to growth re-rating

Quick Pointers:

- Volume grew ~9% YoY, decorative volumes grew in double digits led by festive season, PV, 2W revival and coatings also did well
- High-single digit volume expected in FY25 with increased salience of NPD

We cut our EPS estimates by 1.5%/4.6%/0.4% for FY24/FY25/FY26 given 1) 14% margin guidance for FY24 2) limited scope of margin improvement since price hikes are not expected in near to medium term along with increased expenses on manpower/ad-spends 3) Expected increase in competitive intensity post Grasim's entry in paints business remains a key monitorable.

Kansai continues to invest behind new products like paint plus, distribution expansion and NxtGen painting services and entry into new segments in industrial paints, profit growth will depend upon the competitive intensity post Grasim's entry. We estimate 50bps margin expansion over FY24-26 which will enable 11.7% PAT CAGR. We downgrade rating from ACCUMULATE to HOLD with TP Rs341(earlier TP Rs346).

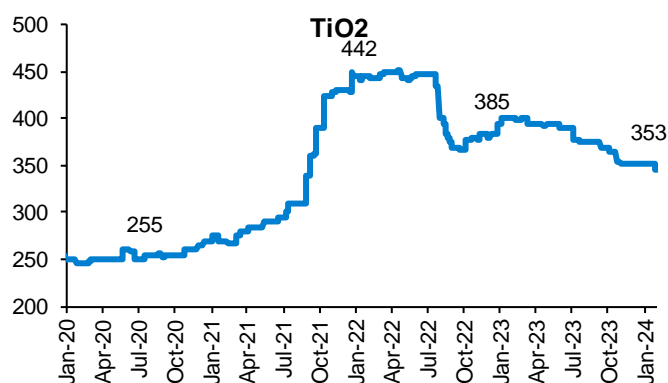
Revenues up 5.7%; Volume grew by 8.9% YoY: Revenues grew by 5.7% YoY to Rs18.1bn (PLe: Rs18.6bn) Gross margins expanded by 598bps YoY to 36.2% (PLe: 36%) EBITDA grew by 27.3% YoY to Rs2.4bn (PLe:Rs2.9bn); Margins expanded by 224bps YoY to 13.2% (PLe:15.8%) Adjusted PAT grew by 40.4% YoY to Rs1.6bn (PLe:Rs1.9bn) Decorative business recorded double digit volume growth driven by robust festive season while Industrial business witnessed good demand

Concall Highlights: 1) Rural demand is seeing green shoots, however urban markets continue to grow ahead of rural. 2) Co expects 8-10% volume growth with EBITDAM guidance of 14% for FY24. Industrial segment is expected to post value growth for ~8-10% in medium term 3) Project business is seeing good traction with opportunity to penetrate into more markets with increased presence to 80+ towns in Q3. 4) Paint service business is seeing good traction and has increased its silence to more than ~170 cities 5) Co launched range of new Italian designer textures under 'Kansai Select' 6) Premium portfolio contributes to ~30% of deco business 7) RM basket continues to decline which lead to GM expansion, however geopolitical crisis could impact crude oil prices going ahead 8) Co took low-single digits price cuts in 3Q while RM deflation could lead to further pass through to consumers 9) Ad spend increased to ~5.3% in 3Q in order to market new launches/visibility 8)Network expansion saw double digit growth in Q3 10) Q4 performance is expected to be in line with 3Q 11) New business is seeing good traction with contribution of ~10% in 3Q with business growing ahead of market . 12) Further growth would be volume led with elections are expected to have positive effect on demand

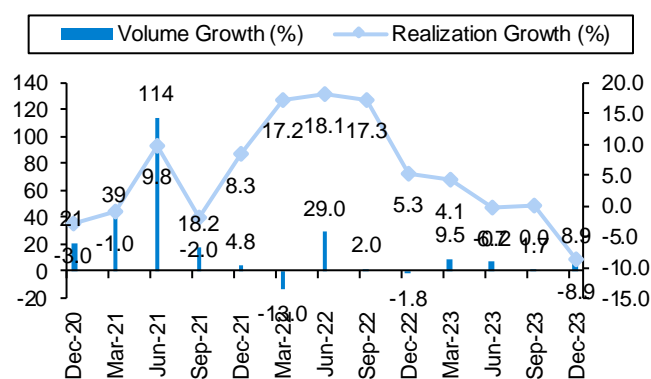
Exhibit 1: Sales grew 5.7% YoY; Gross Margins improve 598bps YoY

Y/e March	Q3FY24	Q3FY23	YoY gr.(%)	Q2FY24	9MFY24	9MFY23	YoY gr.(%)
Total Revenue	18,149	17,171	5.7	18,456	57,316	54,759	4.7
Gross Profit	6,566	5,186	26.6	6,583	20,461	16,191	26.4
<i>% of NS</i>	<i>36.2</i>	<i>30.2</i>	<i>6.0</i>	<i>35.7</i>	<i>35.7</i>	<i>29.6</i>	<i>6.1</i>
Other Expenses	4,167	3,301	26.2	3,884	12,024	9,777	23.0
<i>% of NS</i>	<i>23.0</i>	<i>19.2</i>	<i>3.7</i>	<i>21.0</i>	<i>21.0</i>	<i>17.9</i>	<i>3.1</i>
EBITDA	2,399	1,885	27.3	2,699	8,437	6,414	31.5
<i>Margins %</i>	<i>13.2</i>	<i>11.0</i>	<i>2.2</i>	<i>14.6</i>	<i>14.7</i>	<i>11.7</i>	<i>3.0</i>
Depreciation	462	421	9.7	452	1,342	1,226	9.4
Interest	32	25		32	93	73	
PBT from operations	1,905	1,439	32.4	2,215	7,003	5,115	36.9
Other Income	224	86	159.7	224	611	165	269.4
PBT	2,129	1,525	39.6	2,439	7,613	5,281	44.2
Tax	552	402	37.3	640	1,969	1,356	45.2
<i>Tax rate %</i>	<i>26.0</i>	<i>26.4</i>	<i>(0.4)</i>	<i>26.2</i>	<i>25.9</i>	<i>25.7</i>	<i>0.2</i>
Adjusted PAT	1,576	1,123	40.4	1,799	5,644	3,924	43.8

Source: Company, PL

Exhibit 2: TiO2 prices down 6.3% YoY and 4.6% QoQ


Source: Company, PL

Exhibit 3: Volumes grow by ~8.9% in 3Q24


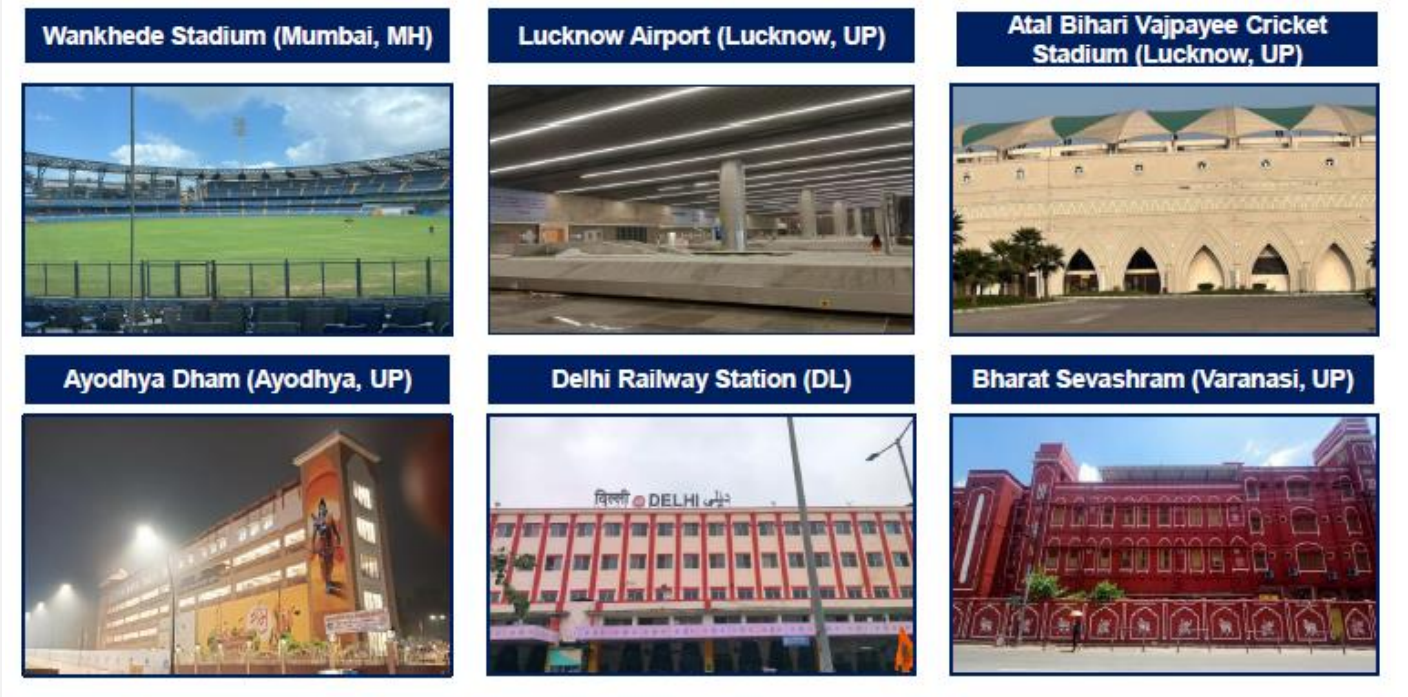
Source: Company, PL

Exhibit 4: Subsidiaries saw mixed performance across markets

Nepal	Bangladesh	Sri Lanka
<ul style="list-style-type: none"> Low single digit growth in Q3 Economic challenges in Nepal continued owing to severe liquidity crunch. 	<ul style="list-style-type: none"> De-growth in Q3 Business sentiment was hit hard by high inflation and political uncertainty Bangladeshi taka weakened in Q3 	<ul style="list-style-type: none"> High double digit-growth in Q3 Sri Lanka's economy on a gradual recovery path but concerns remain. LKR weakened in Q3

Source: Company, PL

Exhibit 5: Prominent Projects undertaken by KNPL in 3Q



Source: Company, PL

Exhibit 6: New products saw robust growth in Q3



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	70,810	74,716	81,581	89,009
YoY gr. (%)	19.0	5.5	9.2	9.1
Cost of Goods Sold	49,553	48,135	52,792	57,080
Gross Profit	21,257	26,581	28,789	31,929
Margin (%)	30.0	35.6	35.3	35.9
Employee Cost	3,338	4,109	4,487	4,895
Other Expenses	5,793	6,157	6,853	7,655
EBITDA	8,098	10,651	11,739	13,148
YoY gr. (%)	22.6	31.5	10.2	12.0
Margin (%)	11.4	14.3	14.4	14.8
Depreciation and Amortization	1,646	1,842	1,943	2,051
EBIT	6,452	8,810	9,796	11,097
Margin (%)	9.1	11.8	12.0	12.5
Net Interest	97	123	99	106
Other Income	308	846	863	877
Profit Before Tax	6,663	9,532	10,560	11,869
Margin (%)	9.4	12.8	12.9	13.3
Total Tax	1,639	2,447	2,700	3,035
Effective tax rate (%)	24.6	25.7	25.6	25.6
Profit after tax	5,023	7,085	7,860	8,834
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,023	7,085	7,860	8,834
YoY gr. (%)	25.9	41.0	10.9	12.4
Margin (%)	7.1	9.5	9.6	9.9
Extra Ord. Income / (Exp)	-	4,913	-	-
Reported PAT	5,023	11,998	7,860	8,834
YoY gr. (%)	29.6	138.8	(34.5)	12.4
Margin (%)	7.1	16.1	9.6	9.9
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	5,025	11,998	7,860	8,834
Equity Shares O/s (m)	539	808	808	808
EPS (Rs)	9.3	8.8	9.7	10.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	30,992	32,628	35,338	38,048
Tangibles	30,480	32,106	34,806	37,506
Intangibles	512	522	532	542
Acc: Dep / Amortization	12,774	14,057	15,511	17,079
Tangibles	12,349	13,615	15,053	16,606
Intangibles	425	442	458	473
Net fixed assets	18,218	18,570	19,827	20,968
Tangibles	18,131	18,491	19,753	20,899
Intangibles	87	80	74	69
Capital Work In Progress	1,126	1,200	1,200	1,200
Goodwill	2	-	-	-
Non-Current Investments	1,715	1,729	1,743	1,758
Net Deferred tax assets	(1,023)	(1,074)	(1,127)	(1,184)
Other Non-Current Assets	4,069	4,676	4,834	5,113
Current Assets				
Investments	4,981	8,981	10,181	10,931
Inventories	16,480	17,458	19,060	20,572
Trade receivables	11,172	11,805	12,666	13,818
Cash & Bank Balance	947	1,987	2,315	2,527
Other Current Assets	1,923	2,017	2,203	2,403
Total Assets	60,751	68,573	74,191	79,469
Equity				
Equity Share Capital	539	808	808	808
Other Equity	45,535	55,043	59,534	63,922
Total Networkth	46,074	55,852	60,343	64,731
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	211	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,375	9,146	10,030	10,603
Other current liabilities	3,131	1,558	1,687	1,842
Total Equity & Liabilities	60,751	68,573	74,191	79,469

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	6,504	9,532	10,560	11,869
Add. Depreciation	1,646	1,842	1,943	2,051
Add. Interest	97	123	99	106
Less Financial Other Income	308	846	863	877
Add. Other	(113)	4,138	(59)	(131)
Op. profit before WC changes	8,134	15,635	12,542	13,895
Net Changes-WC	(3,374)	(7,539)	(2,848)	(2,903)
Direct tax	(1,639)	(2,447)	(2,700)	(3,035)
Net cash from Op. activities	3,121	5,649	6,994	7,956
Capital expenditures	(1,644)	(2,265)	(3,200)	(3,192)
Interest / Dividend Income	-	-	-	-
Others	(640)	-	-	-
Net Cash from Inv. activities	(2,284)	(2,265)	(3,200)	(3,192)
Issue of share cap. / premium	38	(38)	269	-
Debt changes	-	-	-	-
Dividend paid	(539)	(2,183)	(3,638)	(4,446)
Interest paid	(97)	(123)	(99)	(106)
Others	-	-	-	-
Net cash from Fin. activities	(599)	(2,343)	(3,467)	(4,552)
Net change in cash	238	1,040	328	212
Free Cash Flow	1,477	3,383	3,795	4,764

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	16,051	20,712	18,456	18,149
YoY gr. (%)	13.6	6.5	1.7	5.7
Raw Material Expenses	10,986	13,400	11,873	11,583
Gross Profit	5,066	7,312	6,583	6,566
Margin (%)	31.6	35.3	35.7	36.2
EBITDA	1,525	3,339	2,699	2,399
YoY gr. (%)	83.8	30.6	36.8	27.3
Margin (%)	9.5	16.1	14.6	13.2
Depreciation / Depletion	420	428	452	462
EBIT	1,104	2,912	2,247	1,937
Margin (%)	6.9	14.1	12.2	10.7
Net Interest	25	29	32	32
Other Income	143	164	224	224
Profit before Tax	1,223	3,046	2,439	2,129
Margin (%)	7.6	14.7	13.2	11.7
Total Tax	283	777	640	552
Effective tax rate (%)	23.1	25.5	26.2	26.0
Profit after Tax	940	2,269	1,799	1,576
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	940	2,269	1,799	1,576
YoY gr. (%)	161.7	39.3	53.4	40.4
Margin (%)	5.9	11.0	9.7	8.7
Extra Ord. Income / (Exp)	-	5,169	-	-
Reported PAT	940	7,438	1,799	1,576
YoY gr. (%)	283.2	356.6	53.4	40.4
Margin (%)	5.9	35.9	9.7	8.7
Other Comprehensive Income	(9)	1	-	1
Total Comprehensive Income	931	7,439	1,799	1,577
Avg. Shares O/s (m)	539	808	808	539
EPS (Rs)	1.7	2.8	2.2	2.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	9.3	8.8	9.7	10.9
CEPS	12.4	11.0	12.1	13.5
BVPS	85.5	69.1	74.6	80.1
FCF	2.7	4.2	4.7	5.9
DPS	1.0	2.7	4.5	5.5
Return Ratio(%)				
RoCE	14.7	17.3	16.9	17.7
ROIC	12.8	16.4	16.0	16.8
RoE	11.4	13.9	13.5	14.1
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	94	98	97	98
Valuation(x)				
PER	35.8	38.1	34.3	30.5
P/B	3.9	4.8	4.5	4.2
P/CEPS	12.0	10.7	11.7	13.0
EV/EBITDA	21.5	24.3	21.9	19.5
EV/Sales	2.5	3.5	3.2	2.9
Dividend Yield (%)	0.3	0.8	1.3	1.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Volume Gr %	10.0	7.0	9.0	9.0
Gross Margins %	30.0	35.6	35.3	35.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Accumulate	346	337
2	10-Dec-23	Accumulate	370	330
3	03-Nov-23	Accumulate	351	306
4	07-Oct-23	Accumulate	351	324
5	04-Aug-23	Accumulate	351	327
6	06-Jul-23	Accumulate	328	320
7	09-May-23	Accumulate	486	397
8	11-Apr-23	Accumulate	485	386

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	3,159	3,242
2	Avenue Supermarts	BUY	4,484	3,841
3	Britannia Industries	Hold	5,130	5,177
4	Colgate Palmolive	Reduce	2,170	2,536
5	Dabur India	Accumulate	600	540
6	Emami	Accumulate	565	555
7	Hindustan Unilever	Hold	2,724	2,565
8	ITC	Accumulate	489	450
9	Jubilant FoodWorks	Hold	495	495
10	Kansai Nerolac Paints	Accumulate	346	337
11	Marico	Hold	559	516
12	Metro Brands	Hold	1,109	1,166
13	Mold-tek Packaging	Hold	918	876
14	Nestle India	Accumulate	2,679	2,619
15	Pidilite Industries	Accumulate	2,764	2,590
16	Restaurant Brands Asia	Accumulate	151	114
17	Titan Company	Accumulate	3,671	3,627
18	Westlife Foodworld	Hold	825	847

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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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