

Mixed numbers; improvement from rural will aid growth ahead;

Q3FY24 Result Update | Sector: Paint | February 07, 2024

BUY

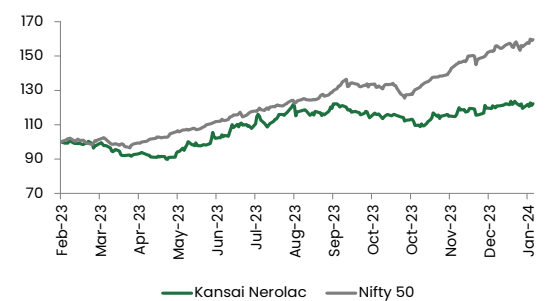
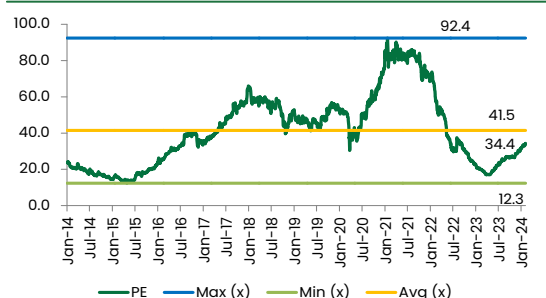
CMP (Rs)	334
Target Price (Rs)	395
Potential Upside	18.3%
Sensex	72,186
Nifty	21,929

Key Stock data

BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL:IN
Shares o/s, Cr (FV 1)	80.8
Market Cap (Rs Cr)	26,983
3M Avg Volume	396,356
52 week H/L	357/249

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	75.0	75.0	75.0
FII	4.2	4.3	4.3
DII	12.3	11.9	11.8
Others	8.5	8.8	8.9

1 year relative price performance

1 year P/E Forward (x)

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Single digit revenue growth: Kansai Nerolac reported revenue growth of 5% YoY to Rs 1,918.7cr while sequential growth remained muted to the tune of 1.9%. Overall growth was driven by festive demand in both the decorative and automotive segment. Amongst, urban & rural market, urban market of Tier 1 & Tier 2 are growing at much better pace as compared to rural Tier 3 & Tier 4 while these are seeing some green shots which will aid growth going ahead.

Margin continuous to improve as compared YoY: The company's Gross profit/EBITDA grew healthy by 24.6%/24.8% YoY to Rs 692.2cr/Rs 244.0cr while gross/EBITDA margin came in at 36.1%/12.7% led by decline in raw material cost, better topline and mix. Thus, PAT too grew by 39.5% YoY to Rs 152.1cr. However, sequentially gross margin improved by 47bps but the growth remained muted by 0.6% while EBITDA was down by 10.7% QoQ with decline in margin by 125bps QoQ and PAT declined by 13.3% QoQ with decrease in margin by 104bps QoQ led by increase in advertisement spends to build brand visibility.

Key Highlights: 1) In the decorative segment, Paint plus is continuously gaining traction and Project business participation was lower but now it is gaining strength. 2) Price cut in decorative is ~3% for the quarter and plans are to maintain gross margin levels. 3) Launch some products under Kansai Japan which are select brands such as Designer finish, beauty little master sheen in the economy range. 4) Launch of Kashmir Sheen, Matt, etc. in the last quarter are gaining traction. 5) Amongst automotive, passenger vehicle, 2/3 wheeler and commercial vehicle gained good demand for the quarter. 6) Presence in more than 450 towns & 170 cities. 7) Demand in North & East is strong. 8) Architect interior designer business is gaining good traction. 9) In International business growth remained impacted because of economic challenges in Nepal & SriLanka, high inflation and political uncertainty in Bangladesh. 10) Expansion in Visakhapatnam is on track. 11) Management remains positive on the growth and expects volumes to grow by 8-10% for FY24.

Outlook & Valuation: Kansai Nerolac posted mixed numbers for Q3FY24, with better numbers as compared last year while subdued growth sequentially. Ahead, we believe government spending on infrastructure will aid overall growth for paints while increasing rural demand, innovations and plan is to grow largely in Industrial non-auto business along with its core segments will aid growth for top-line as well as aims to gain better margins. On the financial front, we have estimated its revenue/EBITDA at 9.3%/22.4% CAGR over FY23-26E and maintain a **Buy** rating with a target price of **Rs 395**.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net revenue	7,543	7,939	8,574	9,860
EBITDA	818	1,103	1,260	1,499
EBITDAM (%)	10.8	13.9	14.7	15.2
APAT	468	1,222	807	972
APATM (%)	6.2	15.4	9.4	9.9
EPS (Rs)	8.7	15.1	10.0	12.0
PE (x)	38.4	22.1	33.4	27.7
RoE (%)	10.3	12.8	12.5	13.4

Source : RBL Research

Revenue de-grew sequentially led by seasonality

EBIT margin impacted largely because of Silverline acquisition impact of 1.1%.

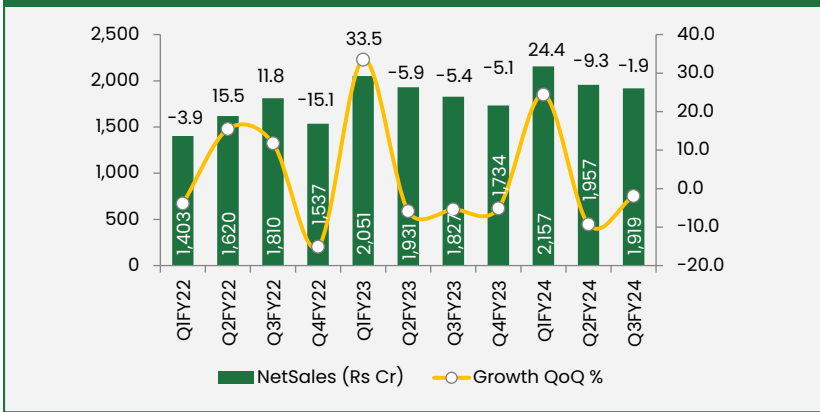
P&L Account Quarterly – consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Net Sales	1,918.7	1,826.8	5.0	1,956.5	(1.9)
Cost of Raw Materials	1,116.1	1,156.8	(3.5)	1,204.4	(7.3)
Purchase of Finished Goods	130.1	110.3	17.9	108.2	20.3
(Increase) / Decrease In Stocks	(19.7)	4.3	-	(52.5)	-
Total Raw material cost	1,226.6	1,271.4	(3.5)	1,260.0	(2.7)
Gross Profit	692.2	555.5	24.6	696.5	(0.6)
Gross Margins %	36.1	30.4	567bps	35.6	47bps
Employee Cost	117.1	93.8	24.8	108.5	8.0
Other Expense	331.0	266.1	24.4	314.8	5.2
Expenditure	448.2	360.0	24.5	423.3	5.9
EBITDA	244.0	195.5	24.8	273.2	(10.7)
EBITDA Margins (%)	12.7	10.7	202bps	14.0	-125bps
Depreciation	48.4	46.0	5.3	47.4	2.2
EBIT	195.6	149.5	30.8	225.9	(13.4)
Other Income	20.1	7.4	172.8	22.0	(8.6)
Interest	7.5	7.4	0.8	7.6	(1.7)
PBT (after Exceptional)	208.2	149.5	39.3	240.3	(13.3)
Tax	56.1	40.5	38.7	64.8	(13.4)
PAT (Reported)	152.1	109.0	39.5	175.5	(13.3)
PAT Margin (%)	7.9	6.0	196bps	9.0	-104bps

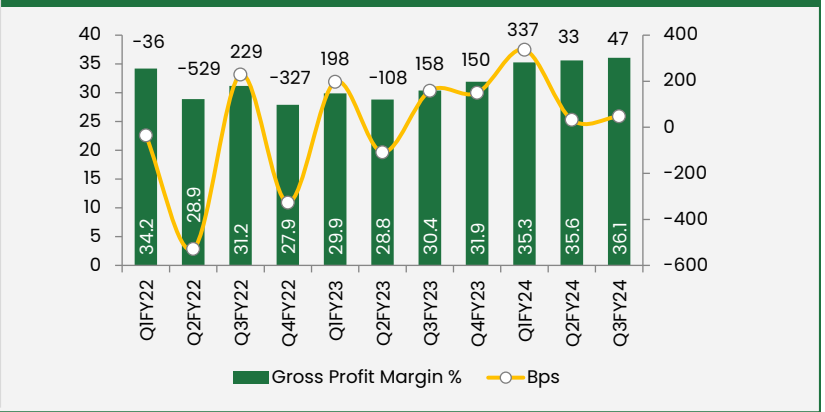
Source : RBL Research

Story in charts

Net Sales grew by 5% YoY but de-grew by 1.9% QoQ

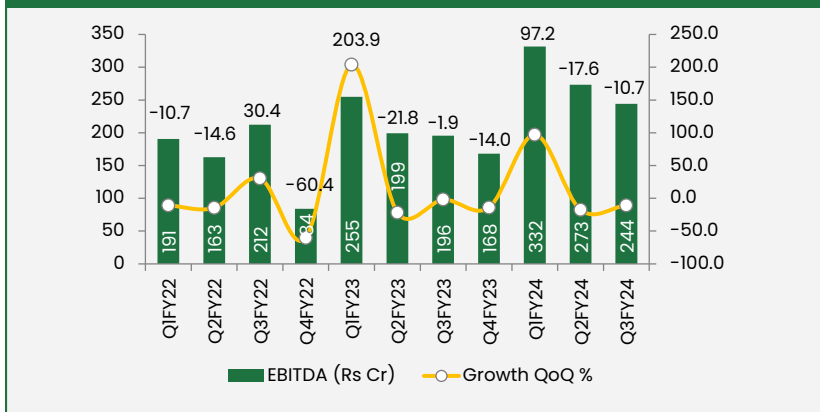


Gross margin improved by 567bps YoY and 47bps QoQ

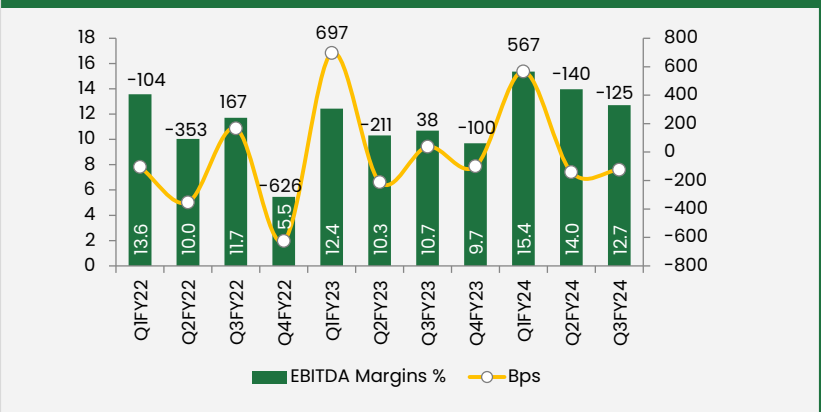


Source : RBL Research

EBITDA increased by 24.8% YoY but decreased by 10.7% QoQ

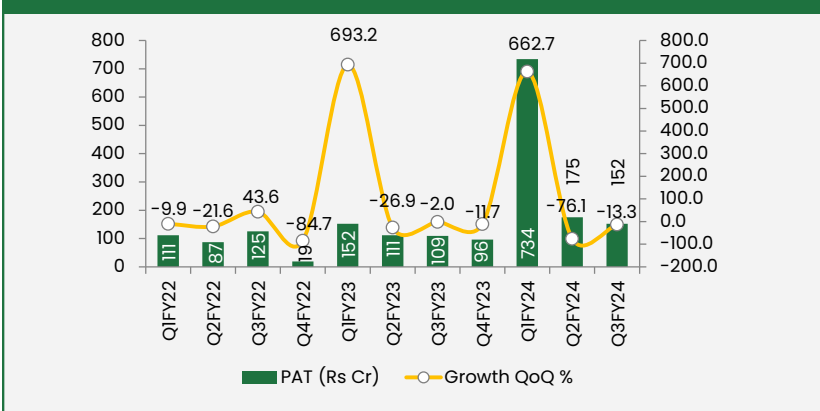


EBITDA margin improved by 202bps YoY but decreased by 125bps QoQ

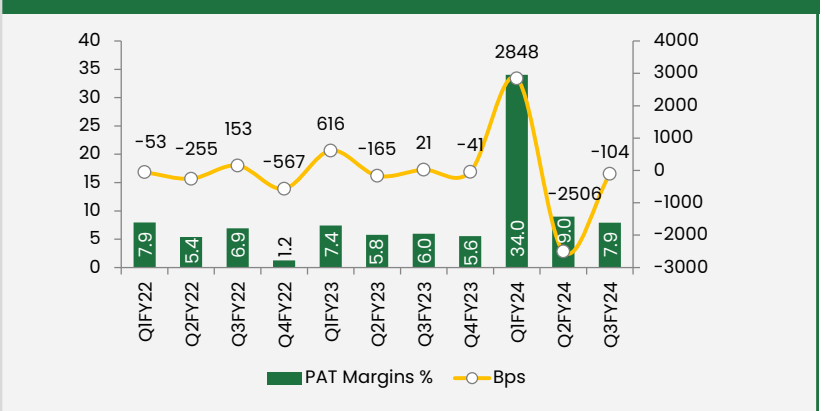


Source : RBL Research

Adj. PAT increased by 39.5% YoY but declined by 13.3% QoQ



Adj. PAT margin improved by 196bps YoY but down by 104bps QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net sales	7,543	7,939	8,574	9,860
Expenditure				
Cost of materials	4,889	4,572	4,922	5,640
Purchase of stock in trade	470	498	523	592
(Increase) / Decrease In Stocks	(95)	25	17	20
Total raw materials	5,264	5,095	5,462	6,251
Gross Profit	2,278	2,844	3,112	3,609
Gross Margins (%)	30.2	35.8	36.3	36.6
Employee cost	377	447	472	542
Other expenses	1,083	1,294	1,380	1,568
EBITDA	818	1,103	1,260	1,499
EBITDAM (%)	10.8	13.9	14.7	15.2
Depreciation	180	192	209	230
PBIT	638	911	1,051	1,269
Other income	26	82	86	99
Interest expenses	29	30	32	36
PBT	635	964	1,105	1,332
Tax	166	403	298	360
Reported PAT	468	561	807	972
Exceptional Income / Expenses	-	661	-	-
PAT (after Exceptional)	468	1,222	807	972
PAT Margin (%)	6.2	15.4	9.4	9.9
EPS (Rs)	8.7	15.1	10.0	12.0

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share Capital	54	81	81	81
Reserves & Surplus	4,480	5,721	6,367	7,177
Total Shareholder's Fund	4,534	5,802	6,447	7,258
Minority Interest	27	28	30	35
Long term borrowings	5	5	5	6
Short term borrowing	155	163	177	203
Total Debt	160	168	182	209
Deferred tax liabilities	112	118	127	146
Long term provision	23	24	26	30
Other long term liabilities	100	105	114	131
Total	235	247	267	307
Current Liabilities				
Trade payables	1,016	1,069	1,154	1,328
Short term provisions	23	24	26	30
Other current liabilities	313	329	334	385
Total	1,351	1,422	1,515	1,742
Total liabilities	6,306	7,668	8,442	9,552
Application of Assets				
Net Block	2,088	2,135	2,268	2,433
Current work in process	113	121	132	145
Goodwill on consolidation	20	20	20	20
Non current investment	3	3	4	4
Tax assets	174	175	189	217
Other non-current assets	105	111	119	137
Total	2,503	2,564	2,732	2,956
Current Assets				
Current investments	498	524	600	690
Inventories	1,729	1,820	1,966	2,260
Trade receivables	1,238	1,303	1,407	1,618
Cash balance	105	1,031	1,276	1,527
Bank balance	22	203	203	203
Other current assets	211	222	257	296
Total	3,803	5,104	5,710	6,595
Total assets	6,306	7,668	8,442	9,552

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Profit before tax	635	964	1,105	1,332
Add: Depreciation	180	192	209	230
Add: Interest cost	29	30	32	36
Less: Other Income /Interest Rec	(3)	(4)	(4)	(5)
Others	(11)	-	-	-
Operating profit before working capital changes	831	1,181	1,342	1,592
Changes in working capital	(236)	(90)	(195)	(323)
Cash from Operations	595	1,091	1,147	1,269
Less: Taxes	(187)	(403)	(298)	(360)
Cash flow from Operations	408	688	848	909
Net cash used in Investing				
Purchase of fixed assets	(123)	(246)	(354)	(407)
Purchase of investments	(2,785)	(26)	(76)	(91)
Sales of fixed assets	2,671	661	-	-
Other Income /Interest Received	3	4	4	5
Others	7	-	-	-
Cash flow from investing	(227)	393	(426)	(493)
Cash flow from Financing				
Proceeds from Equity shares	-	27	-	-
Purchase of borrowings	(22)	8	13	27
Dividend (Incl dividend tax)	(55)	(162)	(162)	(162)
Interest cost	(19)	(30)	(32)	(36)
Others	(37)	1	2	5
Cash flow from Financing	(133)	(155)	(178)	(165)
Net cash Inflow/Outflow	49	927	245	251
Opening cash	(11)	38	964	1,209
Closing cash	38	964	1,209	1,460
Other bank balance	90	271	271	271
Total Closing Cash	127	1,235	1,479	1,730

Source : RBL Research

Key ratios – consolidated

Particulars	FY23	FY24E	FY25E	FY26E
Per share Data				
EPS (Rs)	8.7	15.1	10.0	12.0
Book value per share (Rs)	84.1	71.8	79.8	89.8
Dividend per share (Rs)	1.0	2.0	2.0	2.0
Dividend Payout (%)	11.8	21.8	20.0	16.6
Dividend Yield (%)	0.3	0.6	0.6	0.6
Profitability Ratios				
EBITDAM (%)	10.8	13.9	14.7	15.2
PBTM (%)	8.4	12.1	12.9	13.5
NPM (%)	6.2	15.4	9.4	9.9
RoE (%)	10.3	12.8	12.5	13.4
RoCE (%)	13.6	15.3	15.9	17.0
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	22.0	30.6	33.2	35.7
Fixed Asset Ratio	0.3	0.3	0.3	0.2
Debtors (Days)	59.9	59.9	59.9	59.9
Inventory (Days)	83.7	83.7	83.7	83.7
Payable (Days)	49.1	49.1	49.1	49.1
WC (Days)	94.4	94.4	94.4	94.4
Valuation				
P/E (x)	38.4	22.1	33.4	27.7
P/BV	4.0	4.7	4.2	3.7
EV/EBITDA	22.1	23.7	20.5	17.1
EV/Sales	2.4	3.3	3.0	2.6

Source : RBL Research

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

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