

Steady performance led by margin improvement

Q1FY25 Result Update | Sector: Paints | July 31, 2024

BUY

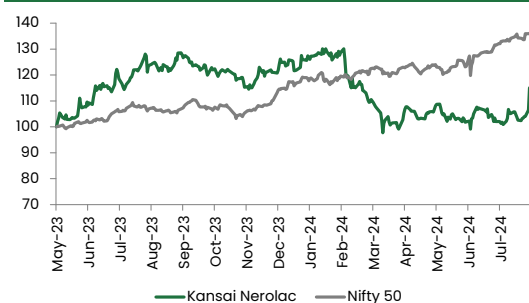
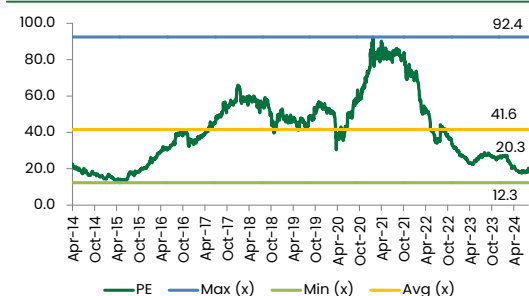
CMP (Rs)	308
Target Price (Rs)	372
Potential Upside	20.8%
Sensex	81,630
Nifty	24,931

Key Stock data

BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL:IN
Shares o/s, Cr (FV 1)	80.8
Market Cap (Rs Cr)	24,855
3M Avg Volume	5,87,347
52 week H/L	357/257

Shareholding Pattern

(%)	Dec-23	Mar-24	Jun-24
Promoter	75.0	75.0	75.0
FII	4.3	4.7	5.1
DII	11.8	11.6	10.7
Others	8.9	8.7	9.2

1 year relative price performance

1 year Forward P/E (x)

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Steady topline growth: Kansai Nerolac Q1FY25 revenue grew by 20.6% YoY but declined by 1.1% QoQ to Rs 2,133.1cr due to strong demand from Automotive Coatings. Demand for Decorative was muted due to unprecedented heat wave, labor shortages and elections. Looking forward, management anticipates with a favourable monsoon demand should improve for decorative. Given the continued thrust on infrastructure growth, new project and order pipeline will improve the demand for performance coatings.

Margins expanded YoY as well as sequentially: Its gross profit improved by 29.2% YoY to Rs 785.4cr while gross margin was higher by 246bps YoY due to a combination of measures like cost control, product mix and procurement efficiencies. Further, despite increase in overall cost, its EBITDA grew by 84.1% YoY to Rs 329.6cr with improvement in margins by 534bps to 15.5%. On the sequential front, its gross profit growth was grew by 3.2% and margins improved by 155bps while EBITDA declined marginally by 0.6% due to increase in overall cost as well as increase in marketing spends but margin improved slightly by 8bps.

Key highlights: 1) The size of domestic paint industry is estimated at around Rs. 75,000 crores as of March 2024. The good growth in infrastructure, core sector as well as automobile and real estate is likely to have a positive effect on the overall demand of paint for the industry in the long run. 2) Witnessed double digit growth in New Business. 3) New products contributed more than 10% of the Decorative Business. 4) Company has a market share of ~60% in automotive segment. 5) Company has implemented a 2% price increase and has another price hike planned. 6) Urban market is doing well while rural is witnessing some recovery. 7) Raw material prices have now gradually started to harden due to various geopolitical issues. The company is actively taking steps to mitigate this cost increase. 8) Amongst industrial, Passenger has seen a good growth & 2W is recovering well while CV & tractor growth remain muted. 9) Overall volume was in the mid-single digits, while the volume in the decorative segment was slightly lower. 10) Industrial & Decorative mix was between 53-55% & 47-45%, respectively. 11) Planning to expand its distribution network by 8-10% in FY25. 12) Management is confident of maintaining its EBITDA margin and expects high single digit volumes growth for FY25.

Outlook & Valuation: Kansai Nerolac posted strong quarterly numbers and expects demand to improve with a normal monsoon. Furthermore, given the continued emphasis on infrastructure growth, new projects, and a robust order pipeline, we believe demand will remain strong. The company is continuously innovating new products and categories, focusing on enhancing distribution channels, and increasing its 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 9.2%/12.5% over FY24-26E and maintain strong **Buy** with target price of **Rs 372**, 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	9,302
EBITDA	818	1,028	1,137	1,301
EBITDAM (%)	10.8	13.2	13.5	14.0
APAT	468	1,176	733	847
APATM (%)	6.2	15.1	8.7	9.1
EPS (Rs)	8.7	14.6	9.1	10.5
PE (x)	35.4	21.1	33.9	29.3
RoE (%)	10.3	12.4	11.9	12.3

Source : RBL Research

Strong demand for the Automotive segment drove revenue growth

Combination of measures like cost control, product mix and procurement efficiencies aided margin expansion

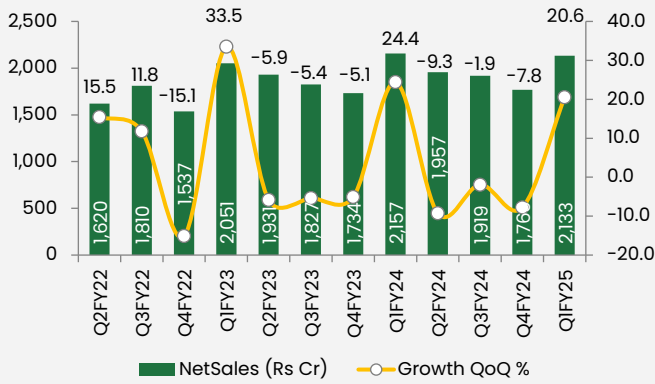
P&L Account Quarterly – consolidated

Particulars, Rs cr	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net Sales	2,133.1	1,769.4	20.6	2,156.8	(1.1)
Cost of Raw Materials	1,144.0	1,104.0	3.6	1,131.8	1.1
Purchase of Finished Goods	122.3	124.2	(1.5)	124.5	(1.8)
(Increase) / Decrease In Stocks	81.4	(66.8)	-	139.7	-
Total Raw material cost	1,347.7	1,161.5	16.0	1,396.1	(3.5)
Gross Profit	785.4	607.9	29.2	760.7	3.2
Gross Margins %	36.8	34.4	246bps	35.3	155bps
Employee Cost	124.5	115.8	7.6	107.2	16.2
Other Expense	331.2	313.1	5.8	322.0	2.8
Expenditure	455.7	428.9	6.3	429.2	6.2
EBITDA	329.6	179.0	84.1	331.5	(0.6)
EBITDA Margins (%)	15.5	10.1	534bps	15.4	8bps
Depreciation	48.1	48.0	0.4	46.7	3.1
EBIT	281.5	131.1	114.8	284.8	(1.2)
Other Income	33.8	32.5	4.0	17.2	96.7
Interest	7.2	7.0	2.7	7.1	1.3
PBT	308.1	156.6	96.8	294.9	4.5
Exceptional Item	-	-	-	661.3	-
PBT (after Exceptional)	308.1	156.6	96.8	956.2	(67.8)
Tax	83.2	42.3	96.9	222.2	(62.5)
PAT (Reported)	224.9	114.3	96.8	734.0	(69.4)
PAT Margin (%)	10.5	6.5	408bps	34.0	-2349bps

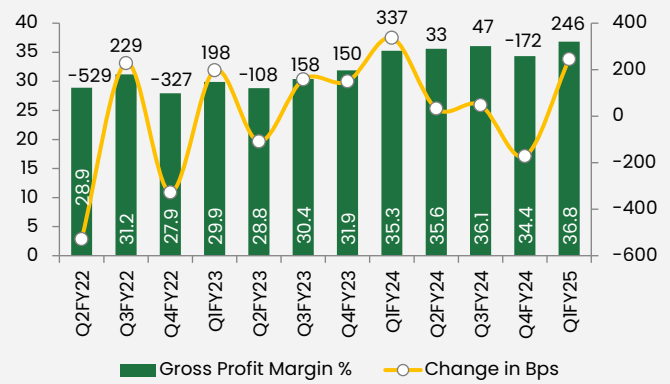
Source : RBL Research

Story in charts

Net Sales grew by 20.6% YoY but de-grew by 1.1% QoQ

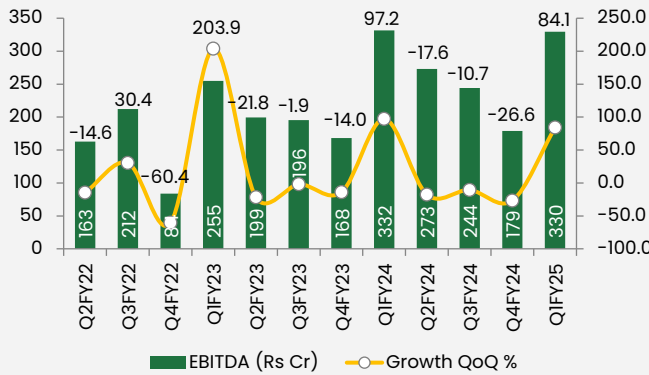


Gross margin improved by 246bps YoY and 155bps QoQ

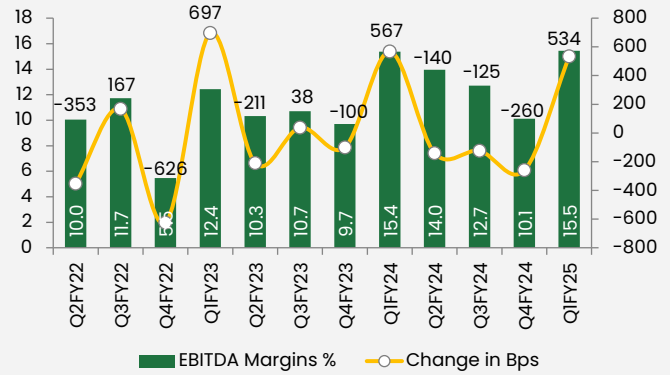


Source : RBL Research

EBITDA increased by 84.1% YoY but decreased by 0.6% QoQ

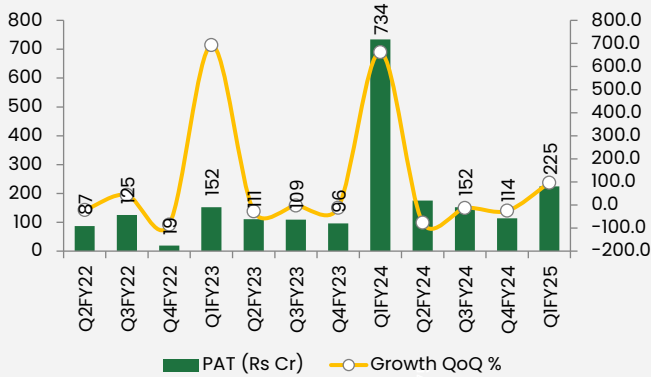


EBITDA margin improved by 534bps YoY and 8bps QoQ

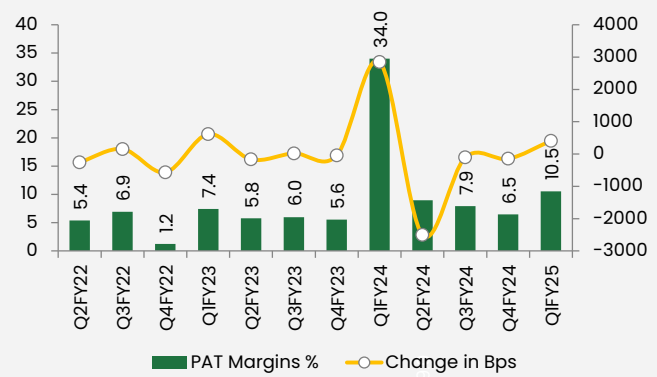


Source : RBL Research

PAT increased by 96.8% YoY but declined by 69.4% QoQ



PAT margin improved by 408bps YoY but declined by 2349bps QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net sales	7,543	7,801	8,426	9,302
Expenditure				
Cost of materials	4,889	4,556	4,887	5,358
Purchase of stock in trade	470	487	514	558
(Increase) / Decrease In Stocks	(95)	1	1	1
Total raw materials	5,264	5,044	5,402	5,917
Gross Profit	2,278	2,757	3,024	3,385
Gross Margins %	30.2	35.3	35.9	36.4
Employee cost	377	449	497	549
Other expenses	1,083	1,281	1,390	1,535
EBITDA	818	1,028	1,137	1,301
EBITDAM (%)	10.8	13.2	13.5	14.0
Depreciation	180	190	203	222
PBIT	638	837	933	1,079
Other income	26	92	99	110
Interest expenses	29	29	29	29
PBT	635	900	1,004	1,160
Tax	166	385	271	313
Reported PAT	468	515	733	847
Exceptional Income / Expenses	-	661	-	-
PAT (after Exceptional)	468	1,176	733	847
PAT Margin %	6.2	15.1	8.7	9.1
EPS	8.7	14.6	9.1	10.5

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	6,089	6,791
Total Shareholder's Fund	4,534	5,583	6,170	6,871
Minority Interest	27	16	16	16
Long term borrowings	5	15	16	18
Short term borrowing	155	106	114	126
Total Debt	160	121	130	144
Deferred tax liabilities	112	126	136	151
Long term provision	23	24	26	29
Other long term liabilities	100	125	135	150
Total	235	276	298	329
Current Liabilities				
Trade payables	1,016	1,096	1,183	1,306
Short term provisions	23	34	37	41
Other current liabilities	313	285	312	344
Total	1,351	1,415	1,532	1,691
Total liabilities	6,306	7,410	8,146	9,051
Application of Assets				
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	4
Tax assets	174	188	185	205
Other non-current assets	105	135	145	160
Total	2,503	2,661	2,777	2,902
Current Assets				
Current investments	498	1,323	1,429	1,577
Inventories	1,729	1,687	1,822	2,012
Trade receivables	1,238	1,335	1,442	1,592
Cash balance	105	172	433	601
Bank balance	22	88	88	88
Other current assets	211	144	155	279
Total	3,803	4,749	5,369	6,149
Total assets	6,306	7,410	8,146	9,051

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Profit before tax	635	1,561	1,004	1,160
Add: Depreciation	180	190	203	222
Add: Interest cost	29	29	29	29
Less: Other Income /Interest Rec	(3)	(5)	(5)	(5)
Others	(11)	(714)	-	-
Operating profit before working capital changes	831	1,062	1,231	1,405
Changes in working capital	(236)	83	(123)	(307)
Cash from Operations	595	1,145	1,108	1,098
Less: Taxes	(187)	(242)	(271)	(313)
Cash flow from Operations	408	903	837	785
Net cash used in Investing				
Purchase of fixed assets	(123)	(237)	(311)	(312)
Purchase of investments	(2,785)	(5,157)	(106)	(149)
Sales of fixed assets	2,671	4,508	-	-
Other Income /Interest Received	3	5	5	5
Others	7	292	-	-
Cash flow from investing	(227)	(590)	(412)	(456)
Cash flow from Financing				
Purchase of borrowings	(22)	(43)	10	14
Dividend (Incl dividend tax)	(55)	(146)	(146)	(146)
Interest cost	(19)	(16)	(29)	(29)
Others	(37)	(45)	-	-
Cash flow from Financing	(133)	(249)	(165)	(161)
Net cash Inflow/Outflow	49	65	261	168
Opening cash	(11)	38	102	363
Closing cash	38	102	363	531
Other bank balance	90	158	158	158
Total Closing Cash	127	260	520	689

Source : RBL Research

Key ratios – consolidated

Particulars	FY23	FY24	FY25E	FY26E
Per share Data				
EPS (Rs)	8.7	14.6	9.1	10.5
Book value per share (Rs)	84.1	69.1	76.4	85.1
Dividend per share (Rs)	1.0	1.8	1.8	1.8
Dividend Payout %	11.8	21.0	19.9	17.2
Dividend Yield %	0.3	0.6	0.6	0.6
Profitability Ratios				
EBITDAM(%)	10.8	13.2	13.5	14.0
PBTM (%)	8.4	11.5	11.9	12.5
NPM (%)	6.2	15.1	8.7	9.1
RoE (%)	10.3	12.4	11.9	12.3
RoCE (%)	13.6	14.7	14.8	15.4
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	22.0	28.7	32.5	37.5
Fixed Asset Ratio	0.3	0.3	0.3	0.3
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
Valuation				
P/E (x)	35.4	21.1	33.9	29.3
P/BV	3.7	4.5	4.0	3.6
EV/EBITDA	20.3	24.1	21.6	18.7
EV/Sales	2.2	3.2	2.9	2.6

Source : RBL Research

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		Yes	No
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Nature of Interest (if answer to F (a) above is Yes :

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

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