

August 3, 2022

Q1FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		BUY	
Target Price	558		513	
Sales (Rs. m)	73,944	82,697	72,834	81,465
% Chng.	1.5	1.5		
EBITDA (Rs. m)	10,264	12,306	8,727	11,439
% Chng.	17.6	7.6		
EPS (Rs.)	12.2	15.1	10.1	13.9
% Chng.	21.1	8.7		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	47,709	59,489	73,944	82,697
EBITDA (Rs. m)	8,435	6,605	10,264	12,306
Margin (%)	17.7	11.1	13.9	14.9
PAT (Rs. m)	5,414	3,989	6,600	8,123
EPS (Rs.)	10.0	7.4	12.2	15.1
Gr. (%)	1.1	(26.3)	65.5	23.1
DPS (Rs.)	4.4	5.2	2.0	5.0
Yield (%)	0.9	1.1	0.4	1.0
RoE (%)	13.8	9.7	14.8	16.3
RoCE (%)	17.7	12.3	19.3	21.0
EV/Sales (x)	5.5	4.5	3.5	3.1
EV/EBITDA (x)	31.0	40.3	25.2	20.8
PE (x)	49.7	67.4	40.7	33.1
P/BV (x)	6.6	6.4	5.7	5.1

Key Data

KANE.BO | KNPL IN

52-W High / Low	Rs.675 / Rs.358
Sensex / Nifty	58,351 / 17,388
Market Cap	Rs.269bn/ \$ 3,397m
Shares Outstanding	539m
3M Avg. Daily Value	Rs.193.64m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	3.28
Domestic Institution	13.39
Public & Others	8.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	34.0	(10.1)	(21.4)
Relative	21.5	(9.5)	(27.5)

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Kansai Nerolac Paints (KNPL IN)

Rating: ACCUMULATE | CMP: Rs499 | TP: Rs558

Worst seems over, expect moderate returns post sharp rally

Quick Pointers:

- 1Q volumes up ~29%, gains market share in Industrial segment
- KNPL has taken 1.6% price hike against 7% inflation in 1Q23
- Dealer count at 26-27k; to expand distribution by 8-10% per annum

We are cutting our rating on KNPL from Buy to Accumulate even as we increase our FY23/24 EPS estimates by 21.1%/8.7% and target price from Rs 513 to Rs558 on account of a sharp 22.5% surge in stock price in past 3 sessions. Worst seems over given 1) Repositioning of Nerolac products as Paint + 2) exit from low margin segments in Industrial paints 3) focus on increasing direct distribution for decorative paints and market development in B2B segments 4) Further price hike in 2Q23 both in industrial & decorative segment 5) Strong outlook for auto paints given pent up demand and easing semiconductor shortage and 6) strong demand in non-auto industrial paints in powder coatings, infra coatings, metros & other industrial segments.

We expect QoQ gross margins improvement from 2Q23, although volatility in commodity prices remains a key factor to watch out for. We estimate PAT CAGR of 46.8% over FY22-24 on a depleted base and value the stock at 37x FY24 EPS assigning a TP of Rs 558 (Rs513 earlier). We expect moderate returns post sharp run in stock price in past few sessions. Incremental market share loss and aggressive entry by Grasim in decorative paints is a key risk to our call. Accumulate.

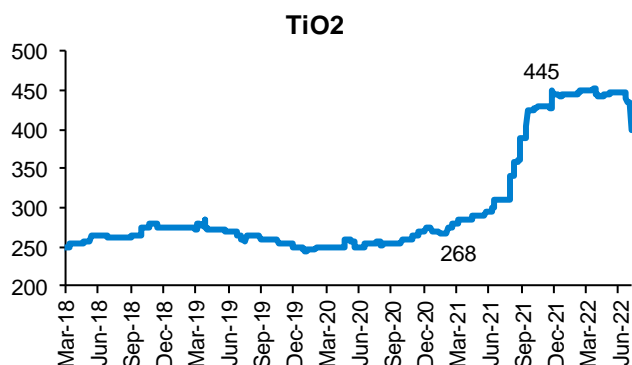
Revenues up 47.1%; Gross margins improve sequentially: Revenues grew by 47.1% YoY to Rs19.4bn. Gross margins contracted by 442bps YoY to 29.9%, however improved QoQ by 195 bps. EBITDA grew by 34.7% YoY to Rs2.6bn; Margins contracted by 121bps YoY to 13.1% while improved by 727 bps QoQ. Adjusted PAT grew by 37% YoY to Rs1.6bn. Demand for both Decorative and Industrial Paints witnessed positive growth. Industrial Paints led by increased demand in auto due to better availability of chips. Input prices for crude-based items witnessed softening towards the end of the quarter which is yet to be reflected in derivatives. Price hikes taken in Decorative and Industrial in 1Q23.

Concall Highlights: 1) Increased range of premium high-tech industrial products to improve margins. 2) Distribution growth in super premium decorative paints was 50%. 3) Distribution touch points grew 7% from 27-28k in FY22. 4) New Products introduced with Paint+ proposition is driving growth 5) Inflation increased by 7% QoQ while price hikes across portfolio was 2%. 6) Management endeavors to expand superior tech products in auto and premium range to improve margins. 7) Demand outlook for auto sector is positive with improve chip availability. 8) Capacity utilization was at 64%-65% in 1Q23. 9) Approved two decorative paint projects with capex of Rs 2.9bn 10) Neroflix sales grew 100%

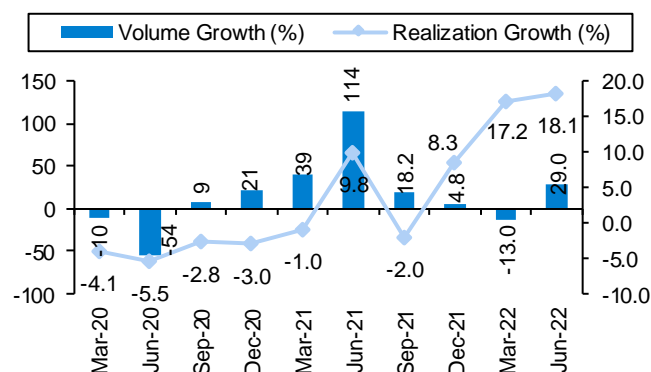
Exhibit 1: Sales grew 47.1% YoY; EBITDA Margins improve sequentially 727 bps to 13.1%

Y/e March	Q1FY23	Q1FY22	YoY gr.(%)	Q4FY22	FY22	FY21	YoY gr. (%)
Total Revenue	19,446	13,216	47.1	14,128	59,489	47,709	24.7
Gross Profit	5,817	4,537	28.2	3,952	18,196	18,135	0.3
% of NS	29.9	34.3	(4.4)	28.0	30.6	38.0	(7.4)
Other Expenses	3,261	2,640	23.5	3,122	11,723	9,699	20.9
% of NS	16.8	20.0	(3.2)	22.1	19.7	20.3	(0.6)
EBITDA	2,556	1,897	34.7	829	6,473	8,435	(23.3)
Margins %	13.1	14.4	(1.2)	5.9	10.9	17.7	(6.8)
Depreciation	393	377	4.0	391	1,538	1,490	3.2
Interest	23	27		26	99	85	
PBT from operations	2,140	1,493	43.3	412	4,837	6,860	(29.5)
Other Income	44	97	(54.9)	76	329	389	(15.4)
PBT	2,184	1,590	37.3	488	5,165	7,249	(28.7)
Tax	555	401	38.3	129	1,308	1,835	(28.7)
Tax rate %	25.4	25.2	0.2	26.4	25.3	25.3	0.0
Adjusted PAT	1,629	1,189	37.0	359	3,857	5,414	(28.8)

Source: Company, PL

Exhibit 2: 1Q23 TiO2 prices up 55.1% YoY, 0.6% QoQ


Source: Company, PL

Exhibit 3: Double digit growth in decorative volumes


Source: Company, PL

Exhibit 4: Subsidiaries saw mixed performance across markets

Highlights

- Despite a tough business environment, Nepal and Sri-Lanka witnessed a good top-line growth
- Growth in Bangladesh was Muted
- Nerofix delivered a growth of 100 % +

Source: Company, PL

Exhibit 5: New product launched during the quarter



Source: Company, PL

Exhibit 6: Tech Advancements in Industrial segment

Auto	New Generation CED	<ul style="list-style-type: none"> •Excellent edge corrosion property •Heavy Metal free (Tin)
Auto	Low Bake Products	<ul style="list-style-type: none"> •Reduced energy use •Lower GHG emissions
Performance Coating	Fluro polymer based coating system	<ul style="list-style-type: none"> •Superior Weather ability and exterior durability •Long term protection
Performance Coating	Insulation coating	<ul style="list-style-type: none"> •Excellent Electrical Insulation property

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	47,709	59,489	73,944	82,697
YoY gr. (%)	(3.5)	24.7	24.3	11.8
Cost of Goods Sold	29,574	41,293	50,814	53,935
Gross Profit	18,135	18,196	23,130	28,763
Margin (%)	38.0	30.6	31.3	34.8
Employee Cost	2,686	3,124	3,327	3,556
Other Expenses	4,602	5,235	5,916	7,112
EBITDA	8,435	6,605	10,264	12,306
YoY gr. (%)	7.9	(21.7)	55.4	19.9
Margin (%)	17.7	11.1	13.9	14.9
Depreciation and Amortization	1,490	1,538	1,672	1,817
EBIT	6,945	5,067	8,592	10,489
Margin (%)	14.6	8.5	11.6	12.7
Net Interest	85	99	110	132
Other Income	389	329	338	497
Profit Before Tax	7,249	5,297	8,820	10,855
Margin (%)	15.2	8.9	11.9	13.1
Total Tax	1,835	1,308	2,220	2,732
Effective tax rate (%)	25.3	24.7	25.2	25.2
Profit after tax	5,414	3,989	6,600	8,123
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,414	3,989	6,600	8,123
YoY gr. (%)	1.1	(26.3)	65.5	23.1
Margin (%)	11.3	6.7	8.9	9.8
Extra Ord. Income / (Exp)	(108)	(114)	-	-
Reported PAT	5,306	3,875	6,600	8,123
YoY gr. (%)	(0.9)	(27.0)	70.3	23.1
Margin (%)	11.1	6.5	8.9	9.8
Other Comprehensive Income	3	25	-	-
Total Comprehensive Income	5,309	3,900	6,600	8,123
Equity Shares O/s (m)	539	539	539	539
EPS (Rs)	10.0	7.4	12.2	15.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	26,649	28,609	31,358	33,868
Tangibles	26,197	28,148	30,887	33,387
Intangibles	453	460	470	480
Acc: Dep / Amortization	10,389	11,501	12,846	14,308
Tangibles	10,085	11,134	12,461	13,905
Intangibles	305	367	386	403
Net fixed assets	16,260	17,108	18,511	19,560
Tangibles	16,112	17,015	18,427	19,482
Intangibles	148	94	85	78
Capital Work In Progress	2,058	2,239	2,000	2,000
Goodwill	2	2	-	-
Non-Current Investments	1,168	1,046	1,057	1,068
Net Deferred tax assets	(963)	(956)	(1,003)	(1,053)
Other Non-Current Assets	3,547	3,850	3,192	3,534
Current Assets				
Investments	6,681	2,095	7,963	9,719
Inventories	11,118	15,315	13,224	14,801
Trade receivables	8,465	9,654	11,071	11,940
Cash & Bank Balance	833	806	2,314	3,015
Other Current Assets	1,632	1,551	1,996	2,233
Total Assets	52,382	53,957	61,403	67,953
Equity				
Equity Share Capital	539	539	539	539
Other Equity	40,231	41,170	46,693	52,121
Total Network	40,770	41,709	47,232	52,660
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	4	223	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,229	8,904	10,671	11,326
Other current liabilities	1,689	1,307	1,414	1,586
Total Equity & Liabilities	52,382	53,957	61,403	67,953

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	7,249	5,165	8,820	10,855
Add. Depreciation	1,490	1,538	1,672	1,817
Add. Interest	85	99	110	132
Less Financial Other Income	389	329	338	497
Add. Other	792	(38)	696	(59)
Op. profit before WC changes	9,616	6,764	11,298	12,745
Net Changes-WC	(4,340)	(212)	(3,406)	(3,621)
Direct tax	(1,835)	(1,308)	(2,220)	(2,732)
Net cash from Op. activities	3,441	5,244	5,672	6,392
Capital expenditures	(2,190)	(2,567)	(2,834)	(2,865)
Interest / Dividend Income	-	-	-	-
Others	376	113	-	-
Net Cash from Invt. activities	(1,814)	(2,454)	(2,834)	(2,865)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(2,371)	(2,829)	(1,078)	(2,695)
Interest paid	(85)	(99)	(110)	(132)
Others	-	-	-	-
Net cash from Fin. activities	(2,456)	(2,928)	(1,188)	(2,826)
Net change in cash	(830)	(139)	1,650	700
Free Cash Flow	1,250	2,677	2,838	3,527

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	15,140	16,588	14,128	19,446
YoY gr. (%)	17.5	12.6	4.2	47.1
Raw Material Expenses	10,810	11,627	10,177	13,629
Gross Profit	4,329	4,961	3,952	5,817
Margin (%)	28.6	29.9	28.0	29.9
EBITDA	1,579	1,751	829	2,556
YoY gr. (%)	(39.1)	(39.6)	(59.9)	34.7
Margin (%)	10.4	10.6	5.9	13.1
Depreciation / Depletion	380	390	391	393
EBIT	1,199	1,361	438	2,164
Margin (%)	7.9	8.2	3.1	11.1
Net Interest	23	23	26	23
Other Income	62	93	76	44
Profit before Tax	1,238	1,432	488	2,184
Margin (%)	8.2	8.6	3.5	11.2
Total Tax	321	370	129	555
Effective tax rate (%)	25.9	25.8	26.4	25.4
Profit after Tax	917	1,062	359	1,629
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	917	1,062	359	1,629
YoY gr. (%)	(45.8)	(47.4)	(72.0)	37.0
Margin (%)	6.1	6.4	2.5	8.4
Extra Ord. Income / (Exp)	51	262	(114)	-
Reported PAT	968	1,324	245	1,629
YoY gr. (%)	(38.9)	(34.4)	(80.9)	37.0
Margin (%)	6.4	8.0	1.7	8.4
Other Comprehensive Income	(2)	(2)	31	5
Total Comprehensive Income	967	1,322	276	1,634
Avg. Shares O/s (m)	539	539	-	539
EPS (Rs)	1.7	2.0	-	3.0

Source: Company Data, PL Research

Key Financial Metrics

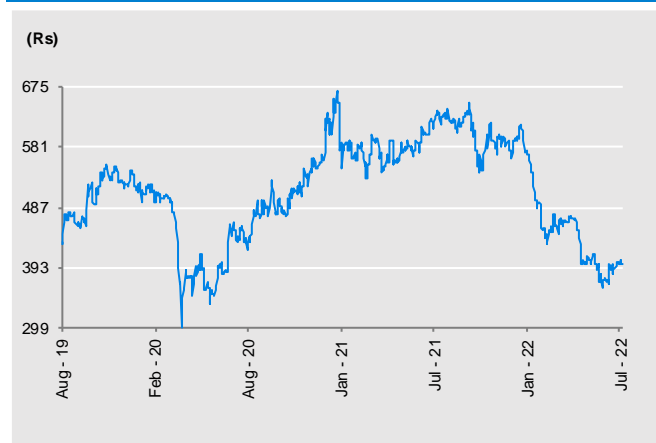
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	10.0	7.4	12.2	15.1
CEPS	12.8	10.3	15.3	18.4
BVPS	75.7	77.4	87.6	97.7
FCF	2.3	5.0	5.3	6.5
DPS	4.4	5.2	2.0	5.0
Return Ratio(%)				
RoCE	17.7	12.3	19.3	21.0
ROIC	16.3	10.0	18.8	21.1
RoE	13.8	9.7	14.8	16.3
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	87	99	67	68
Valuation(x)				
PER	49.7	67.4	40.7	33.1
P/B	6.6	6.4	5.7	5.1
P/CEPS	12.8	10.3	15.3	18.4
EV/EBITDA	31.0	40.3	25.2	20.8
EV/Sales	5.5	4.5	3.5	3.1
Dividend Yield (%)	0.9	1.1	0.4	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Volume Gr %	(9.5)	21.0	9.0	11.0
Gross Margins %	38.0	30.6	31.3	34.8

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	513	396
2	12-May-22	BUY	518	398
3	08-Apr-22	BUY	675	464
4	04-Feb-22	BUY	651	541
5	06-Jan-22	BUY	707	596
6	13-Dec-21	BUY	707	597
7	27-Oct-21	Accumulate	651	560
8	06-Oct-21	Accumulate	661	646

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	3,942
3	Britannia Industries	UR	-	3,810
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	544
6	Emami	Accumulate	611	452
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	Accumulate	327	308
9	Jubilant FoodWorks	BUY	700	565
10	Kansai Nerolac Paints	BUY	513	396
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,721	19,112
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	BUY	2,520	2,014
17	Titan Company	BUY	2,520	2,128
18	Westlife Development	BUY	781	589

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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