

9th July, 2024

Analyst - Sushil Kr Jaiswal

Recommendation	CMP (₹)	Target (₹)	Upside Potential (%)	Time Horizon
Buy	269.4	325	20.8%	9 – 12 months

Kansai Nerolac Paints Limited, headquartered in Mumbai, is India's largest industrial paint manufacturer and third largest decorative paint company. The company was incorporated in 1920 as Gahagan Paints & Varnish Company Limited in Lower Parel, Mumbai. Later on, 11 July, 2006, it was rebranded as Kansai Nerolac Paints Limited which reflects its status as subsidiary of Kansai Paint of Japan. By 2023, the company had a market share of 15.4% of the Indian paint market. The company is specialized in production of industrial, automotive and powder coatings and caters to a diverse range of industries which includes electrical components, cycles and furniture. Currently, the company operates in 6 paint manufacturing plants across India with approximately 6-7 contract manufacturers. The company's commitment to innovation and quality is evidenced by its numerous technical collaborations with industry leaders like E.I. DuPont. The company has strong brand reputation in the Indian Paint Industry and is a key player in the segment.

Stock Details	
Sector:	Paints
FV (₹):	1
Total Market Cap (₹):	22,117 cr.
52-Week High/Low (₹):	357/251
Sensex/Nifty (₹):	79,243/24,044
BSE Code/NSE Symbol:	500165/KANSAINER

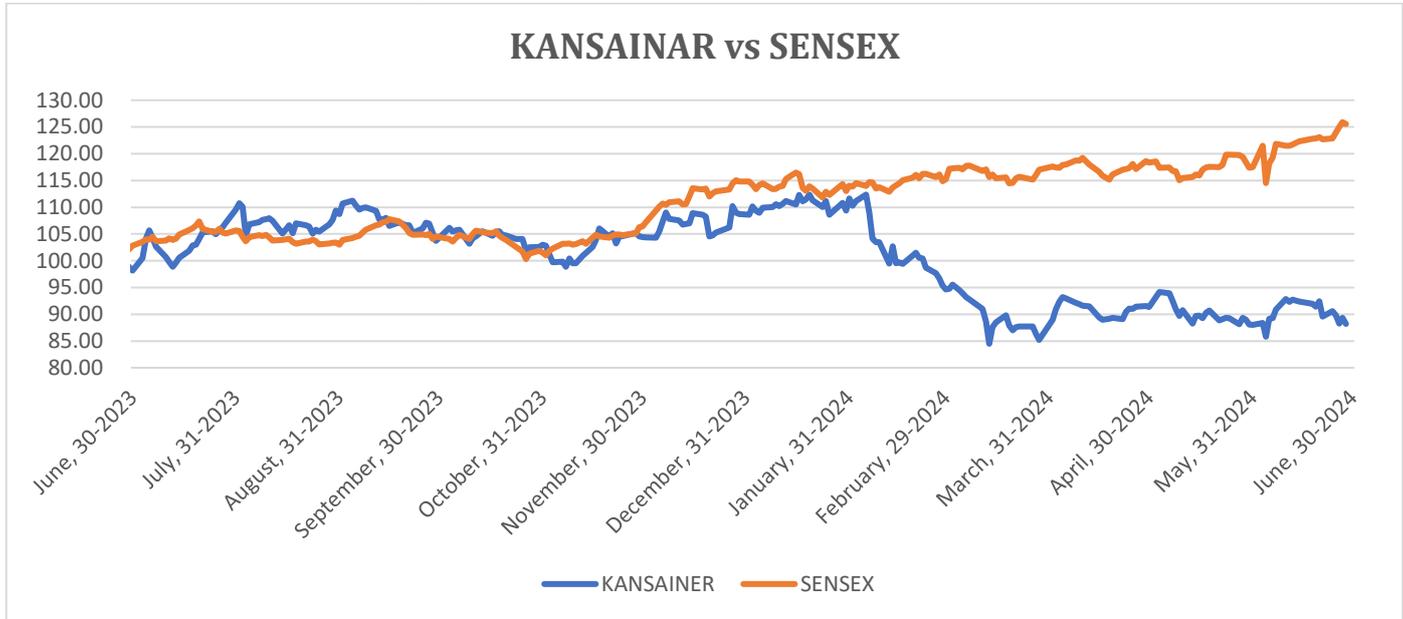
Shareholding Pattern				
	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	74.99%	74.99%	74.99%	74.99%
FIIs	4.21%	4.27%	4.28%	4.72%
DIIIs	12.29%	11.90%	11.84%	11.61%
Public	8.49%	8.82%	8.88%	8.68%

Price Performance				
	1M	3M	6M	12M
KANSAINER	1.41%	3.52%	-17.98%	-9.94%
SENSEX	5.11%	8.56%	10.00%	24.96%

Key Financials (Cons)	FY21	FY22	FY23	FY24	3Y CAGR %
Net Sales	5074.3	6369.4	7542.7	7801.4	15.42%
EBITDA (Excl OI)	863.28	649.36	817.99	1027.8	5.99%
EBITDA Margin (%)	17%	10%	11%	13%	
Profit After Tax	525.72	343.15	468.47	1175.9	30.78%
PAT Margin (%)	9.13%	4.75%	5.49%	13.42%	
Earnings Per Share (Rs)	9.83	6.65	8.78	14.66	
Book Value	75.2	76.67	84.05	68.86	
Div Per Share (Rs)	5.25	2.25	2.7	3.75	
Dividend Yield (%)	0.87%	0.48%	0.69%	1.42%	
ROE (%)	13.45%	8.38%	10.81%	23.29%	
ROCE (%)	18.03%	11.79%	14.70%	30.59%	

Valuation Ratio (Consolidated)	Latest (TTM)	10 Year Median
P/E	18.45	43.22
P/BV	3.87	6.65
EV/EBITDA	19.35	24.87
Market Cap/Sales	2.95	3.99

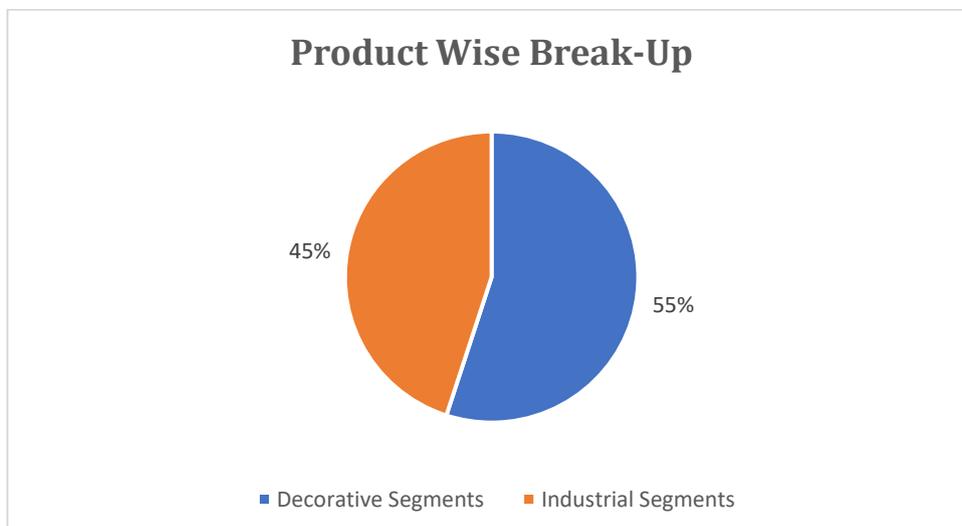
Price comparison between Kansai Nerolac Paints Limited vs Sensex



Products and Services:

Kansai Nerolac Paints Limited offers a wide range of differentiated products with a focus on being healthy and eco-friendly. Some of the product and services offered by the company are:

- **Decorative Paints:** This includes interior and exterior wall paints, wood surface paints and metal surface paints.
- **Automotive coatings:** This includes services provided to automobile sector like auto refinishing products, underbody paints, pre-treatment chemicals and transit protection films.
- **Performance Coatings:** This is available for a wide range of products from household appliances to metal fittings in factories.



Q4FY24 Con-Call Highlights:

Financial Performance:

- Company achieved a 3.5% revenue growth in the quarter and 4.4% growth during the year.
- EBITDA for Q4FY24 stood at 6.5% and for FY23-24 stood at 25.6%.
- PAT for FY24 increased to 151%.
- A total of 375% of dividend was declared out of which 125% was a special dividend.
- Total CapEx for the year is Rs.237.2 crores.
- Subsidiary in Sri Lanka's net sales grew by more than 10% but sales of subsidiary of Nepal and Bangladesh de grew.

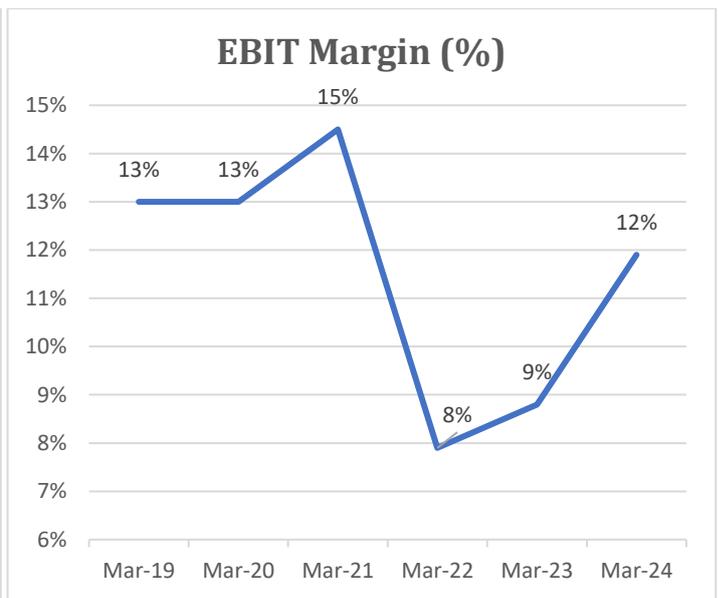
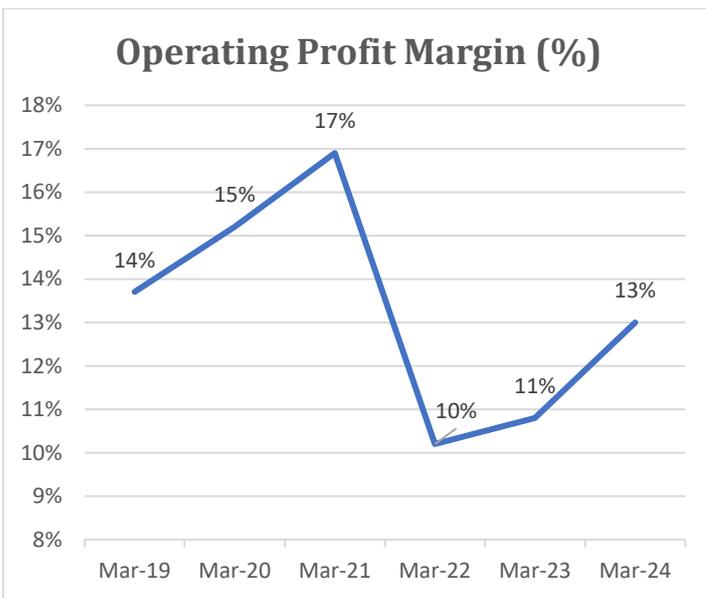
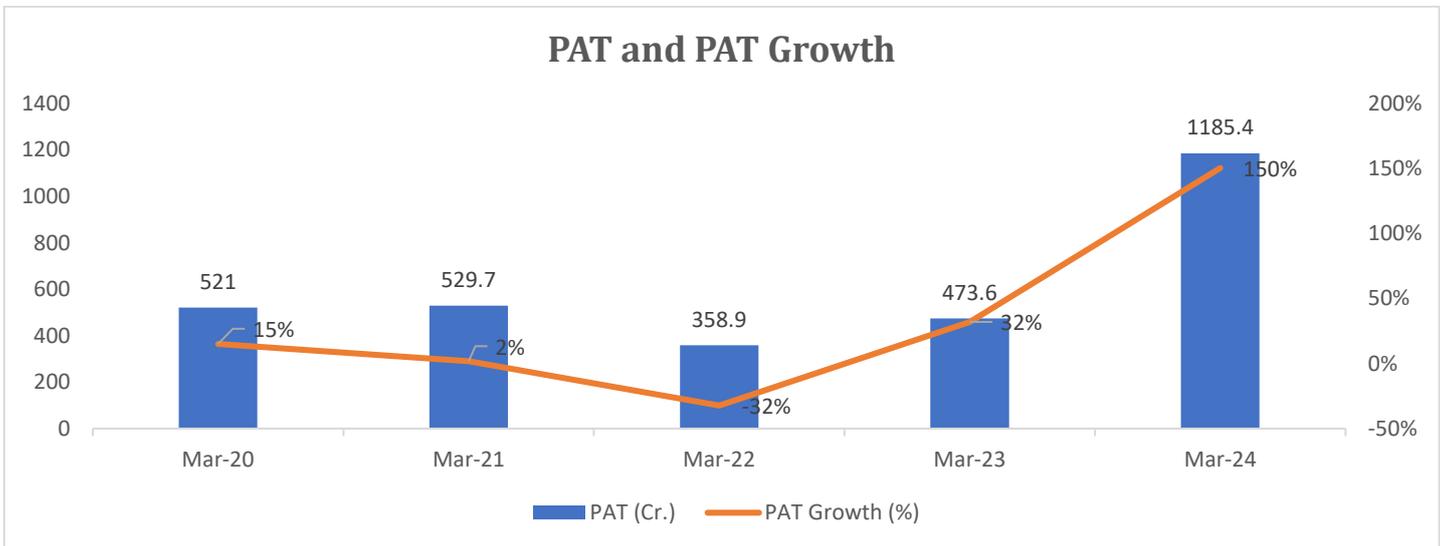
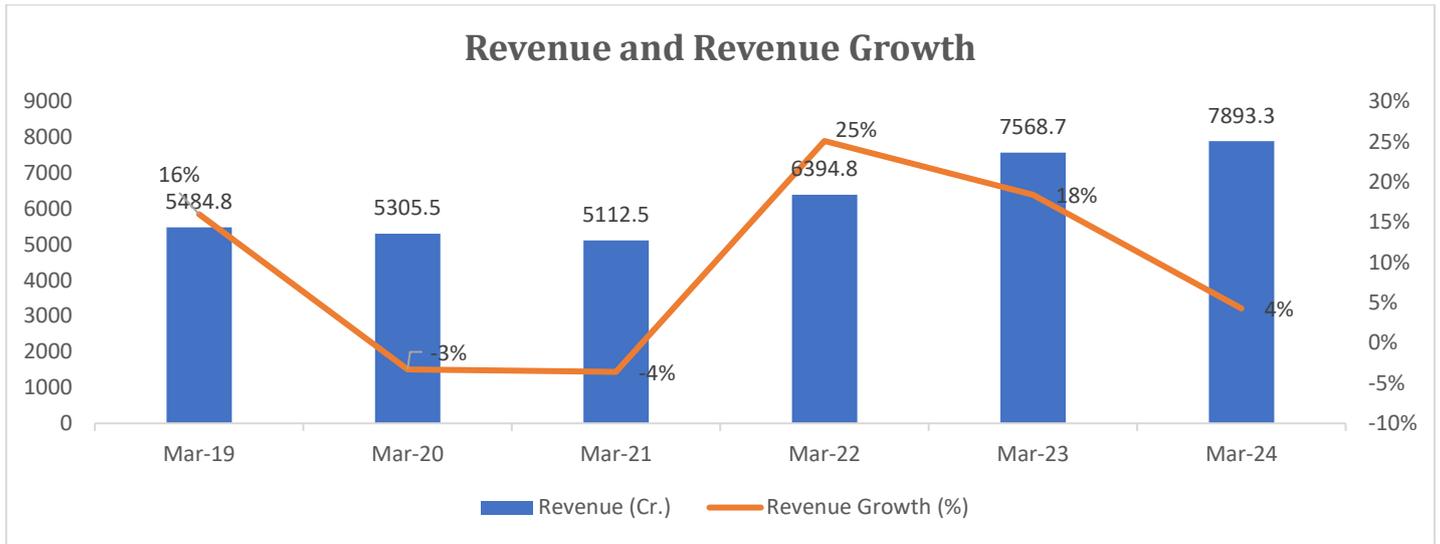
Guidance Provided by Management:

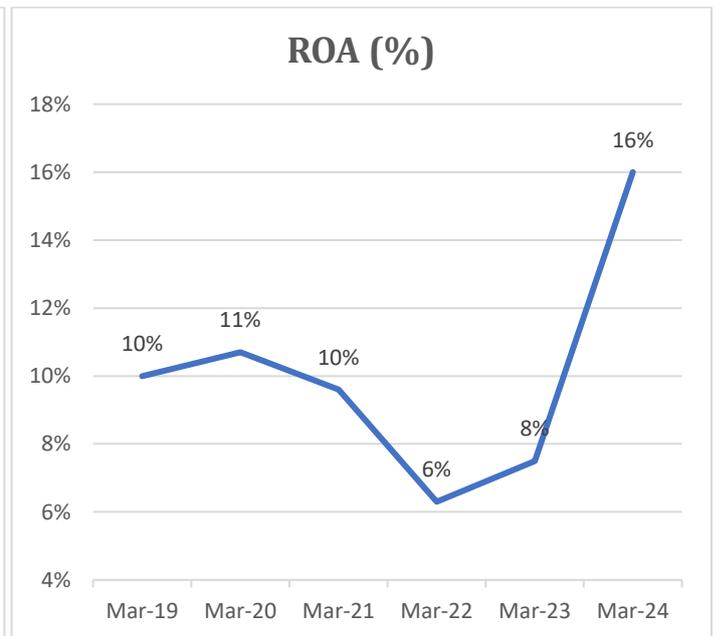
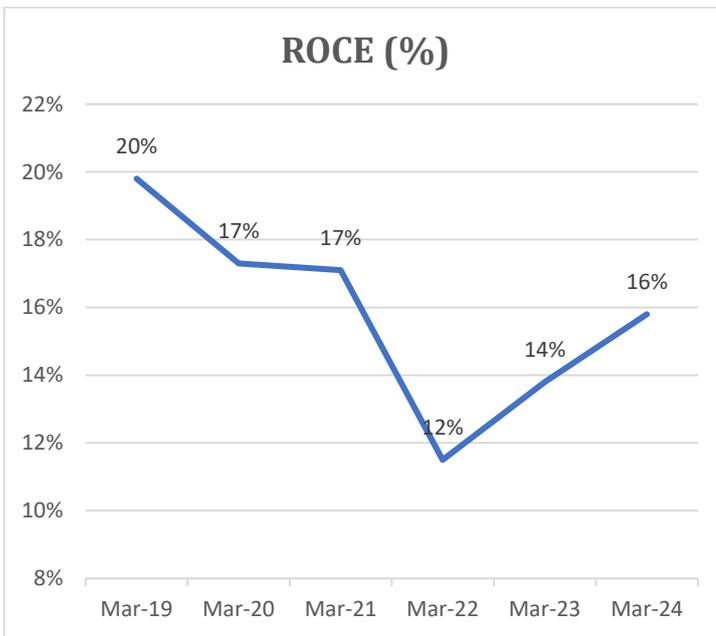
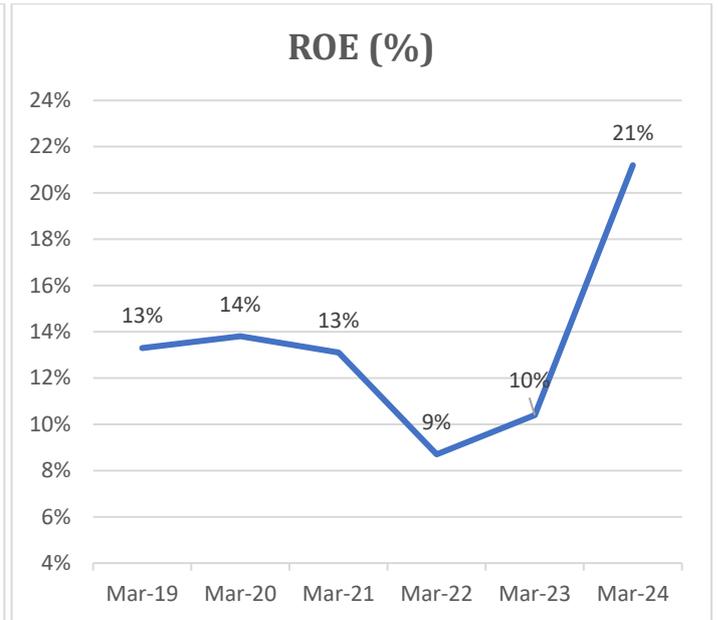
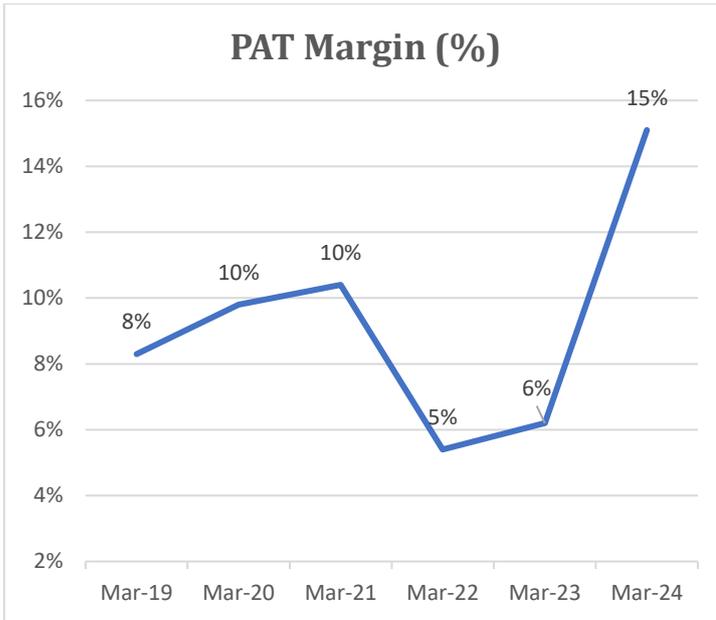
- Management anticipates industry volume growth in the range of 8-10% with a potential for higher single-digit growth.
- Capex projection of 300 crores is set for FY25.
- Future strategies include leveraging investments in digital and team structures to capitalize on market growth opportunities.
- Expansion plans involve enhancing distribution networks and exploring new geographies for business growth.
- Company aims to achieve a double-digit margin in the industrial segment while maintaining stability.
- Commitment to reducing emissions with a roadmap for emission reduction by 2030.

Investment Rational:

- Kansai Nerolac Paints Limited has demonstrated a robust financial performance in the past financial year with a notable growth in key segments in Decorative business and industrial performance coatings.
- The company has undertaken strategic initiatives such as influencer program which focuses on infrastructure building, team investment and personalized offering through AI platforms. This demonstrates a forward-looking approach to market trends and consumer preferences.
- They have expanded its market presence to over 250 cities with a capacity to handle 5000+ sites in a month which indicates a strong foothold in the market and potential for further growth.
- The company has successfully increased saliency in premium segments by introducing new global products and technologies such as anti-carbonation system for bridges and IP Net Coating system for infrastructure projects. This premium strategy has led to increased market share and differentiation.
- They have emphasized green initiatives by reducing baking temperatures and focusing on environmentally friendly practices. This commitment sustainably aligns with evolving consumer preferences and regulatory developments.
- Company has a strong presence in both decorative and industrial coatings and offers a diversified product portfolio which caters to various customer segments. This diversification reduces risk and enhances growth opportunities.
- The Nerolac brand has a strong reputation in the market which is backed by years of experience and quality products. This brand recognition provides a competitive advantage and instills trust among consumers and investors.

Performance Highlights:





Income Statement

(In Cr.)

Income Statement (Cr.)	FY20	FY21	FY22	FY23	FY24
Revenue	5,280	5,074	6,369	7,543	7,801
COGS	3,274	3,159	4,442	5,281	5,063
Gross Profit	2,006	1,915	1,927	2,261	2,738
SG&A Expenses	616	493	614	695	855
Other Income	10	17	19	13	708
Other Expenses	573	543	660	738	814
EBITDA	827	895	672	841	1,776
Depreciation and Amortization	142	165	170	180	190
EBIT	685	730	502	661	1,586
Interest	18	18	26	26	25
EBT	667	712	476	635	1,561
Tax	151	187	133	166	385
PAT	516	526	343	468	1,176

Balance Sheet

(In Cr.)

Balance Sheet (Cr.)	FY20	FY21	FY22	FY23	FY24
ASSETS					
Cash And Equivalents	180.21	102.94	77.04	104.61	172.23
Short Term Investments	9.73	19.22	26.50	19.91	85.59
Trading Asset Securities	305.10	668.06	209.46	498.13	1,322.90
Total Cash & ST Investments	495.04	790.22	313.00	622.65	1,580.72
Accounts Receivable	786.98	956.35	1,093.33	1,237.91	1,334.88
Other Receivables	9.01	58.44	33.07	8.36	6.70
Notes Receivable	4.87	-	-	-	-
Total Receivables	800.86	1,014.79	1,126.40	1,246.27	1,341.58
Inventory	1,008.35	1,197.93	1,629.55	1,729.13	1,687.46
Prepaid Exp.	19.75	17.75	12.88	33.30	54.39
Other Current Assets	164.54	157.17	148.45	171.77	84.94
Total Current Assets	2,488.54	3,177.86	3,230.28	3,803.12	4,749.09
Gross Property, Plant & Equipment	2,951.08	3,133.24	3,381.31	3,536.74	3,801.14
Accumulated Depreciation	-951.11	-1,074.18	-1,207.35	-1,352.99	-1,503.03
Net Property, Plant & Equipment	1,999.97	2,059.06	2,173.96	2,183.75	2,298.11
Long-term Investments	0.85	0.95	1.08	3.23	3.72
Goodwill	19.78	19.78	19.78	19.78	19.78
Other Intangibles	55.56	40.02	26.82	17.41	16.72
Loans Receivable Long-Term	15.12	-	-	-	-
Other Long-Term Assets	303.80	235.68	257.46	279.07	322.30
Total Assets	4,883.62	5,533.35	5,709.38	6,306.36	7,409.72
LIABILITIES					
Accounts Payable	595.39	906.82	980.64	1,015.55	1,095.58
Accrued Exp.	37.28	44.40	53.02	59.20	77.34
Short-term Borrowings	149.82	149.66	185.81	149.05	101.01
Curr. Port. of LT Debt	4.96	6.25	6.25	6.25	4.69
Curr. Port. of Leases	10.97	18.78	23.60	27.08	30.31
Curr. Income Taxes Payable	3.37	4.91	4.99	-	-
Unearned Revenue, Current	79.89	80.54	30.52	50.08	50.02
Other Current Liabilities	35.56	29.16	41.23	199.44	161.61
Total Current Liabilities	917.24	1,240.52	1,326.06	1,506.65	1,520.56
Long-Term Debt	23.44	17.19	10.94	4.69	15.00
Long-Term Leases	52.78	77.12	92.11	99.97	125.41
Pension & Other Post-Retire. Benefits	0.07	0.04	22.27	22.54	23.91
Def. Tax Liability, Non-Curr.	108.11	108.89	106.49	111.88	126.24
Other Non-Current Liabilities	-	0.41	-	0.22	-
Total Liabilities	1,101.64	1,444.17	1,557.87	1,745.95	1,811.12
Common Stock	53.89	53.89	53.89	53.89	80.84
Additional Paid In Capital	12.56	12.56	12.56	12.56	-
Retained Earnings	3,699.87	3,992.69	4,071.01	4,458.32	5,479.48
Comprehensive Inc. and Other	-6.02	-6.24	-5.24	8.93	22.24
Total Common Equity	3,760.30	4,052.90	4,132.22	4,533.70	5,582.56
Minority Interest	21.68	36.28	19.29	26.71	16.04
Total Equity	3,781.98	4,089.18	4,151.51	4,560.41	5,598.60
Total Liabilities and Equity	4,883.62	5,533.35	5,709.38	6,306.36	7,409.72

Cash Flow Statement

(In Cr.)

Cash Flow Statement (Cr.)	FY20	FY21	FY22	FY23	FY24
Cash Flow from Operating Activities					
Net Income	521	530	359	474	1185
Adjustments	131	195	92	170	-365
Operating Profit Before Working Capital Changes	652	725	451	644	820
Changes in Current Assets	29	-401	-538	-297	-9
Changes in Current Liabilities	-86	322	112	61	92
Cash Flow from Operating Activities	595	646	25	408	903
Cash Flow from Investing Activities	-376	-453	250	-227	-590
Cash Flow from Financing Activities	-141	-274	-309	-133	-249
Net Change in Cash during the year	78	-81	-35	49	64

View:

Kansai Nerolac indicates a strong operational efficiency and market positioning and has demonstrated consistent growth in its financial performance. They have strategically expanded its market presence globally and showcased a robust foothold in the industry. This also lead to enhance revenue potential and cater diverse customer segments and geographies. The company's focus on innovation and quality highlights their commitment in staying at the forefront of technological advancements in the paint industry. Furthermore, their diversified product portfolio caters to both decorative and industrial coatings and this provides a solid foundation for long-term growth and sustainability. Also, the stock is trading at a PE ratio of 18.45x which makes it a compelling investment opportunity and we expect the stock to reach a target price of Rs.325 in a time span of 9-12 months.

Disclaimer: *This document has been prepared by Just Trade Securities Limited (hereinafter referred to as Just Trade)*

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument /security (ies) or as an official confirmation of any transaction. Further this document/report should not be construed as an investment advice. Readers should take independent advice from their Financial Advisor, before acting upon or taking any decision based on this document/report.

The information contained herein is from publicly available data or other sources believed to be reliable. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for information purpose only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made out of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of Just Trade may have issued other documents/reports that are inconsistent with and reach to a different conclusion from the information presented in this document/report.

This document/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Just Trade and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

In no event shall Just Trade, any of its affiliates or any third party involved in, or related to, computing or compiling the information herein have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of Just Trade and/or its affiliates.

This document/report is subject to changes without prior notice and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Just Trade will not treat recipients as customers by virtue of their receiving this document/report.

Just Trade, its directors, employees and/or its associates/affiliates or their employees may have interest and/or hold position(s), financial or otherwise in the securities mentioned in this document/report.