

India

**REDUCE** (no change)

Consensus ratings*:	Buy 8	Hold 5	Sell 8
Current price:	Rs284		
Target price:	Rs272		
Previous target:	Rs300		
Up/downside:	-4.2%		
InCred Research / Consensus:	-16.0%		
Reuters:	KANE.NS		
Bloomberg:	KNPL IN		
Market cap:	US\$2,745m		
	Rs229,257m		
Average daily turnover:	US\$1.6m		
	Rs137.4m		
Current shares o/s:	808.4m		
Free float:	25.0%		
*Source: Bloomberg			

**Key changes in this note**

- Lower target price to Rs272 from Rs300.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(0.5)	(11.1)	7.9
Relative (%)	1.1	(13.6)	(9.3)

<b>Major shareholders</b>	% held
Promoter & Promoter Group	75.0
LIC	3.6
ICICI Prudential Life Insurance	1.2

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# Kansai Nerolac Paints Limited

## Focus remains on protecting market share

- Consolidated/standalone sales grew 2.1%/3.5% yoy to Rs19.2bn/Rs18.1bn, respectively, in 4QFY24. Volume grew in double digits due to price cuts.
- Given the efforts made to premiumize its industrial range, the EBITDA margin guidance for the segment in low double digits for FY25F is underwhelming.
- While KNPL is taking the right steps, timing is not on its side due to the evolving competitive landscape. Retain REDUCE rating on it with a lower TP of Rs272.

### Decorative segment lags the industry due to weak rural demand

Kansai Nerolac Paints' (KNPL) 4QFY24 consolidated/standalone net sales grew by 2.1%/3.5% yoy to Rs17.6bn/Rs16.6bn, respectively. Volume grew in double digits led by price cuts. KNPL's decorative segment posted slower growth due to sluggishness in rural markets, where it has a stronger presence vs. the industry. Management maintained its double-digit volume guidance for FY25F, similar to FY24. KNPL's paint + range/new product (NPD) saw 4+/15+ new launches, respectively, in FY24, with salience of NPDs now at 10%. Premium range salience improved by 150bp. The newer range of waterproofing and wood finishes performed well in FY24. Projects business continued to post healthy growth. KNPL's market share at 10% remained flat yoy. Media spending in Tamil Nadu has been stepped up to improve its presence.

### Industrial division's growth led by automotive segment

KNPL's automotive segment grew faster led by the sports utility vehicle or SUV and electric vehicle or EV segments. Two/three-wheelers saw a 10% demand growth led by the recovery in rural markets in 2HFY24 and healthy demand from the EV segment. The commercial vehicle and tractor segments continued to post weak growth. Industrial refinishing business continued its growth momentum. Liquid/powder performance coatings segment was subdued, but is expected to improve from 2HFY25F. Projects business has been performing well.

### Margins likely to remain under pressure

In 4QFY24, KNPL's consolidated gross margin expanded by 250bp yoy (down 170bp qoq) to 34.4%. EBITDA margin expanded 40bp yoy to 10.1% (down 260bp qoq). The industrial segment's EBITDA margin remained weak considering its dominant position. Rebating intensity is expected to remain benign in the near term. We find the EBITDA margin outlook in low double digits (10-11%) for the industrial segment to be underwhelming given 1) the efforts made to premiumize offerings, and 2) cutting down low-margin products.

### Retain REDUCE rating with a target price of Rs279

Our concerns over KNPL regaining its market share in the decorative paints segment and operating in a lower margin band for a prolonged period make us retain our REDUCE rating on the stock with a new target price of Rs272 (29x Mar 2026F EPS), from Rs300 earlier. Upside risks: Market share gains in the decorative paints segment.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	63,694	75,427	78,014	84,664	91,289
Operating EBITDA (Rsm)	6,494	8,180	10,278	10,800	10,756
Net Profit (Rsm)	3,432	4,685	11,758	7,300	7,515
Core EPS (Rs)	6.4	8.7	8.4	9.0	9.3
Core EPS Growth	(34.7%)	36.5%	(3.5%)	7.7%	2.9%
FD Core P/E (x)	44.54	32.62	33.82	31.41	30.51
DPS (Rs)	4.0	4.7	5.6	6.6	7.8
Dividend Yield	2.12%	2.50%	2.95%	3.48%	4.10%
EV/EBITDA (x)	23.57	18.30	21.05	20.21	20.19
P/FCFE (x)	56.64	180.61	(56.63)	32.62	21.92
Net Gearing	0.1%	(7.4%)	(23.3%)	(20.5%)	(23.3%)
P/BV (x)	3.70	3.37	4.11	4.23	4.38
ROE	8.4%	10.8%	13.4%	13.3%	14.1%
% Change In Core EPS Estimates					(6.30%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Focus remains on protecting market share

### Highlights from the analyst meet

#### Highlights

- Demand from the automotive segment was good.
- Rural demand was slower in the last one-to-two years (higher salience for KNPL). In the last six months, there was a pick-up from a decorative paints perspective. As per management, historically, when rural markets have been weak and then when they bounce back, B2B sales grow faster, following which B2C segments pick up growth.
- The market share is at 10%. KNPL has been protecting its market share in the last one year.
- In projects business, KNPL is growing faster than the industry.
- KNPL is weak in urban markets, where it will focus in the near term. In rural markets it is stronger but due to sluggishness, the demand has been hit.
- Region-wise performance: North and West was better than South and East. South is weak for KNPL.
- In terms of distribution, KNPL aims to increase its weighted distribution reach. Expansion is underway. Expected in double digits.
- Trade margin increased in the market due to higher competitive intensity in the last two years.
- Prices were cut in both industrial and decorative segments but the degree of cuts was lower in industrial vs decorative.
- Price & mix is not expected to deteriorate further and will be either maintained or improved.
- Distributors: 25% of the network is exclusive. The rest are multi-brand dealers. Among dual-brand dealers, the share of KNPL is higher, as per management.

#### Decorative segment

- Initiatives taken in the last year aided growth, thereby leading to double-digit growth.
- The Paint+ range has been a focus area in the last one year. Four new products were launched in the Paint + range. Salience increased by 150bp to high single-digit. It will insulate KNPL from competition as these products are differentiated.
- 15+ products were launched in FY24 with a 10% NPD salience.
- Paint as a service has been scaled to 250 cities. Capability to paint 5,000+ sites in a month. Decent contribution in 4Q. Increasing on a month-on-month basis.
- Architects and interior designers: Expanded efforts in more cities. Already connected with 5,000 architects.
- Painters: AI platform is used to create cohorts of painters and also aids with data analytics. Wallet share increased for existing customers.
- Secondary salience to primary: Efforts are underway to increase secondary salience to primary. KNPL now gives leads to its dealers to go and service customers to drive growth.
- Retail platforms (offline): 80+ Nxtgen Shoppes opened so far. Nix colour sensor - it allows customers to replicate colours by giving codes for tinting machines.
- New business: Salience of new business increased by 180bp yoy.
- Projects business: KNPL reaches 75 towns. Active contractor base increased by 35% yoy. Salience of projects business in the decorative segment improved

by 100bp. Sales pipeline is ready. Some projects in FY24: Wankhede Stadium, Lucknow Airport, Atal Bihari Vajpayee Cricket Stadium, etc.

- Branding and media: Advertisement spending has been increased in FY24. Digital's share increased in FY24.
- Added 9 more depots in FY24. Total 112 depots as of FY24-end.

### Industrial segment

- Growth was good this year.
- Passenger vehicles: 7% demand growth in the last two quarters led by SUVs and growth in the EV segment.
- Refinish: KNPL was a late entrant but has a higher salience in the premium range. Automobile OEM body shops are the key customers.
- General industrial: Increasing its focus here. In liquids, it did very well. Powder costings posted marginal growth in 4Q and FY24. Worked on reducing baking temperature to save energy.
- Performance coatings should improve post 2HFY24F.
- Projects: Coastal road, trans harbour link, etc.
- EBITDA margin is in double digits now. 10-12% is sustainable margin in the segment. The target is to maintain margins.
- The market share in the automotive segment stands at 58%.

### Input costs and margins

- Raw material costs were benign.
- Advertising expenses at 4.5% of sales (higher for the decorative segment). More than Rs3,500m spent on advertisements in FY24.
- Royalty is less than 5% of sales, as per management.

### Outlook

- Capacity addition in Hosur has been completed. Phase-1 of the Vizag plant is to be commissioned in 2QFY25F (greenfield). Jainpur water base expansion (brownfield) will be ready by 3Q/4QFY25F.
- Capex is higher than Rs3,000m in FY24.

**Figure 1: Quarterly summary - consolidated**

Y/E Mar (Rs. m)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
<b>Revenue</b>	<b>17,336</b>	<b>19,187</b>	<b>17,694</b>	2.1	-7.8	<b>75,427</b>	<b>78,014</b>	3.4
<b>Expenditure</b>	<b>15,655</b>	<b>16,747</b>	<b>15,904</b>	1.6	-5.0	<b>67,247</b>	<b>67,737</b>	0.7
Consumption of RM	11,806	12,266	11,615	-1.6	-5.3	52,643	50,441	-4.2
as % of sales	68.1%	63.9%	65.6%			69.8%	64.7%	
Employee costs	1,008	1,171	1,158	14.8	-1.2	3,771	4,486	19.0
as % of sales	5.8%	6.1%	6.5%			5.0%	5.8%	
Other expenditure	2,841	3,310	3,131	10.2	-5.4	10,834	12,810	18.2
as % of sales	16.4%	17.3%	17.7%			14.4%	16.4%	
<b>EBITDA</b>	<b>1,681</b>	<b>2,440</b>	<b>1,790</b>	<b>6.5</b>	<b>-26.6</b>	<b>8,180</b>	<b>10,278</b>	<b>25.6</b>
Depreciation	458	484	480	4.7	-1.0	1,801	1,905	5.8
<b>EBIT</b>	<b>1,223</b>	<b>1,956</b>	<b>1,311</b>	<b>7.1</b>	<b>-33.0</b>	<b>6,379</b>	<b>8,373</b>	<b>31.3</b>
Other income	97	201	325	235.4	61.6	260	919	253.7
Interest	68	75	70			290	292	
<b>PBT</b>	<b>1,252</b>	<b>2,082</b>	<b>1,566</b>	<b>25.0</b>	<b>-24.8</b>	<b>6,349</b>	<b>9,000</b>	<b>41.8</b>
Total tax	290	561	423	45.9	-24.7	1,664	3,854	131.6
<b>Adjusted PAT</b>	<b>962</b>	<b>1,521</b>	<b>1,143</b>	<b>18.8</b>	<b>-24.9</b>	<b>4,685</b>	<b>5,146</b>	<b>9.8</b>
Minority interest	25	-22	-17			-51	-96	
<b>APAT after MI</b>	<b>938</b>	<b>1,543</b>	<b>1,160</b>	<b>23.7</b>	<b>-24.8</b>	<b>4,736</b>	<b>5,242</b>	<b>10.7</b>
Extraordinary items	0	0	0	-	-	0	-6,613	
<b>Reported PAT</b>	<b>938</b>	<b>1,543</b>	<b>1,160</b>	<b>23.7</b>	<b>-24.8</b>	<b>4,736</b>	<b>11,854</b>	<b>150.3</b>
<b>Adjusted EPS</b>	<b>1.7</b>	<b>1.9</b>	<b>2.2</b>	<b>23.7</b>	<b>12.8</b>	<b>5.9</b>	<b>14.7</b>	<b>150.3</b>
<b>Margins (%)</b>	<b>4QFY23</b>	<b>3QFY24</b>	<b>4QFY24</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>FY23</b>	<b>FY24</b>	<b>(bp)</b>
Gross margin	31.9%	36.1%	34.4%	250	-170	30.2%	35.3%	510
EBITDA	9.7%	12.7%	10.1%	40	-260	10.8%	13.2%	230
EBIT	7.1%	10.2%	7.4%	40	-280	8.5%	10.7%	230
EBT	7.2%	10.9%	8.8%	160	-200	8.4%	11.5%	310
PAT	5.6%	7.9%	6.5%	90	-150	6.2%	6.6%	40
Effective tax rate	23.1%	27.0%	27.0%	390	0	26.2%	42.8%	1,660

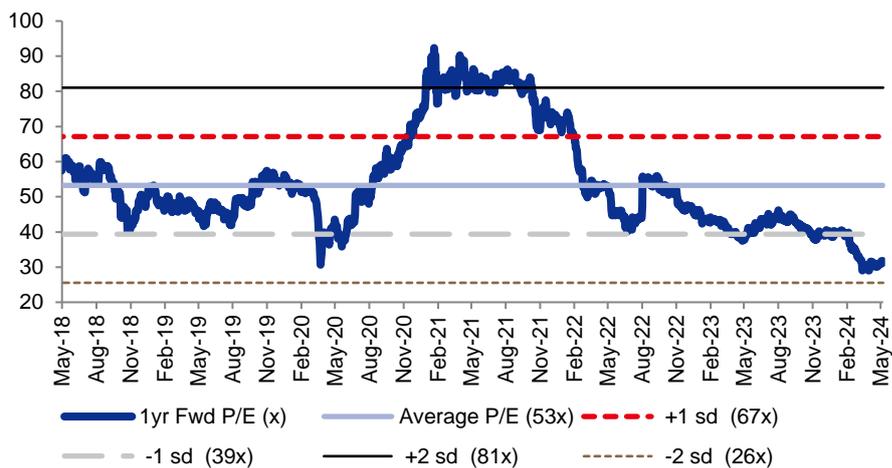
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E, Mar (Rs. m)	FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change
Revenues	84,861	84,664	(0.2)	98,929	98,689	(0.2)
EBITDA	11,046	10,800	(2.2)	12,091	10,682	(11.7)
EBITDA Margin (%)	13.0%	12.8%	-30 bp	12.2%	10.8%	-140 bp
APAT	7,300	7,300	0.0	8,095	7,573	(6.3)
EPS	9.0	9.0	0.0	10.0	9.4	(6.3)

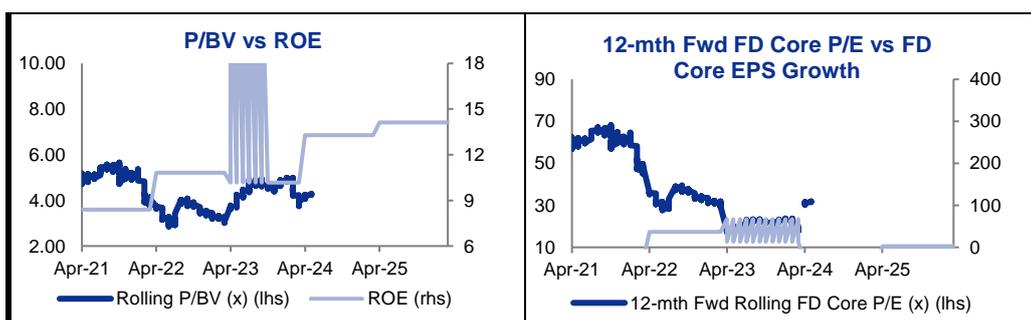
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: KNPL's one-year forward P/E trades between -1SD and -2SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>63,694</b>	<b>75,427</b>	<b>78,014</b>	<b>84,664</b>	<b>91,289</b>
<b>Gross Profit</b>	<b>19,421</b>	<b>22,785</b>	<b>27,573</b>	<b>29,558</b>	<b>31,498</b>
<b>Operating EBITDA</b>	<b>6,494</b>	<b>8,180</b>	<b>10,278</b>	<b>10,800</b>	<b>10,756</b>
Depreciation And Amortisation	(1,698)	(1,801)	(1,905)	(2,039)	(2,145)
<b>Operating EBIT</b>	<b>4,796</b>	<b>6,379</b>	<b>8,373</b>	<b>8,760</b>	<b>8,611</b>
Financial Income/(Expense)	(32)	(30)	627	1,107	1,546
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>4,764</b>	<b>6,349</b>	<b>8,999</b>	<b>9,867</b>	<b>10,157</b>
Exceptional Items			6,613		
<b>Pre-tax Profit</b>	<b>4,764</b>	<b>6,349</b>	<b>15,612</b>	<b>9,867</b>	<b>10,157</b>
Taxation	(1,333)	(1,664)	(3,854)	(2,567)	(2,642)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>3,432</b>	<b>4,685</b>	<b>11,758</b>	<b>7,300</b>	<b>7,515</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,432</b>	<b>4,685</b>	<b>11,758</b>	<b>7,300</b>	<b>7,515</b>
Recurring Net Profit	3,432	4,685	6,778	7,300	7,515
<b>Fully Diluted Recurring Net Profit</b>	<b>3,432</b>	<b>4,685</b>	<b>6,778</b>	<b>7,300</b>	<b>7,515</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>6,494</b>	<b>8,180</b>	<b>10,278</b>	<b>10,800</b>	<b>10,756</b>
Cash Flow from Invt. & Assoc.	51	96			
Change In Working Capital	(4,912)	(706)	301	(69)	2,150
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
<b>Other Operating Cashflow</b>					
Net Interest (Paid)/Received	(286)	(290)	(292)	(290)	(260)
Tax Paid	(1,333)	(1,664)	(3,854)	(2,567)	(2,642)
<b>Cashflow From Operations</b>	<b>14</b>	<b>5,615</b>	<b>6,433</b>	<b>7,874</b>	<b>10,004</b>
Capex	(2,715)	(1,804)	(3,041)	(2,243)	(1,350)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	4,585	(2,908)	(8,253)		
Other Investing Cashflow	254	260	919	1,397	1,806
<b>Cash Flow From Investing</b>	<b>2,124</b>	<b>(4,453)</b>	<b>(10,375)</b>	<b>(846)</b>	<b>456</b>
Debt Raised/(repaid)	560	(317)	(106)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,233)	(3,815)	(6,754)	(7,969)	(9,404)
Preferred Dividends					
Other Financing Cashflow	244	3,223	12,037	(998)	69
<b>Cash Flow From Financing</b>	<b>(2,430)</b>	<b>(910)</b>	<b>5,178</b>	<b>(8,968)</b>	<b>(9,335)</b>
Total Cash Generated	(291)	253	1,235	(1,940)	1,125
<b>Free Cashflow To Equity</b>	<b>2,698</b>	<b>846</b>	<b>(4,049)</b>	<b>7,027</b>	<b>10,460</b>
<b>Free Cashflow To Firm</b>	<b>2,424</b>	<b>1,453</b>	<b>(3,650)</b>	<b>7,317</b>	<b>10,720</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	3,155	6,250	15,829	13,888	15,013
Total Debtors	10,933	12,379	13,349	14,058	11,577
Inventories	16,296	17,291	16,875	16,212	17,344
Total Other Current Assets	4,492	4,900	4,661	5,136	5,501
<b>Total Current Assets</b>	<b>34,876</b>	<b>40,821</b>	<b>50,713</b>	<b>49,294</b>	<b>49,435</b>
Fixed Assets	22,010	22,013	22,893	23,353	22,558
Total Investments	11	32	37	37	37
Intangible Assets	198	198	198	198	198
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>22,218</b>	<b>22,243</b>	<b>23,128</b>	<b>23,588</b>	<b>22,793</b>
Short-term Debt	2,157	1,824	1,360	1,360	1,360
Current Portion of Long-Term Debt					
Total Creditors	10,898	13,011	13,505	14,537	15,703
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>13,054</b>	<b>14,834</b>	<b>14,865</b>	<b>15,897</b>	<b>17,063</b>
Total Long-term Debt	1,031	1,047	1,404	1,404	1,404
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>1,031</b>	<b>1,047</b>	<b>1,404</b>	<b>1,404</b>	<b>1,404</b>
Total Provisions	1,494	1,579	1,842	1,262	1,262
<b>Total Liabilities</b>	<b>15,579</b>	<b>17,460</b>	<b>18,111</b>	<b>18,564</b>	<b>19,730</b>
Shareholders Equity	41,322	45,337	55,826	54,158	52,338
Minority Interests	193	267	160	160	160
<b>Total Equity</b>	<b>41,515</b>	<b>45,604</b>	<b>55,986</b>	<b>54,318</b>	<b>52,499</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	25.5%	18.4%	3.4%	8.5%	7.8%
Operating EBITDA Growth	(24.8%)	26.0%	25.6%	5.1%	(0.4%)
Operating EBITDA Margin	10.2%	10.8%	13.2%	12.8%	11.8%
Net Cash Per Share (Rs)	(0.06)	6.27	16.16	13.76	15.15
BVPS (Rs)	76.68	84.13	69.06	66.99	64.74
Gross Interest Cover	16.78	22.00	28.66	30.21	33.12
Effective Tax Rate	28.0%	26.2%	24.7%	26.0%	26.0%
Net Dividend Payout Ratio	94.2%	81.4%	131.2%	109.2%	125.1%
Accounts Receivables Days	58.73	56.41	60.19	59.08	51.25
Inventory Days	116.55	116.44	123.62	109.57	102.42
Accounts Payables Days	88.20	82.88	95.93	92.87	92.30
ROIC (%)	11.1%	14.6%	18.8%	19.7%	20.8%
ROCE (%)	10.7%	13.4%	15.4%	15.0%	15.2%
Return On Average Assets	6.2%	7.8%	6.6%	8.4%	8.2%

<b>Key Drivers</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue growth (%)	25.5%	18.4%	3.4%	8.5%	7.8%
Gross margin (%)	30.5%	30.2%	35.3%	34.9%	34.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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