

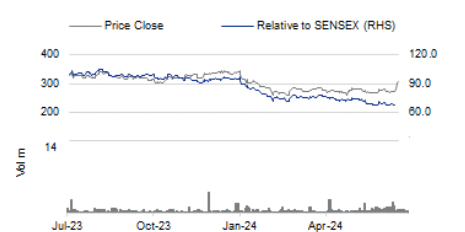
India

**REDUCE** (no change)

Consensus ratings*:	Buy 7	Hold 4	Sell 8
Current price:	Rs307		
Target price:	Rs300 ▲		
Previous target:	Rs272		
Up/downside:	-2.3%		
InCred Research / Consensus:	-2.8%		
Reuters:			
Bloomberg:	KNPL IN		
Market cap:	US\$3,420m		
	Rs248,334m		
Average daily turnover:	US\$2.6m		
	Rs188.0m		
Current shares o/s:	808.4m		
Free float:	25.0%		
*Source: Bloomberg			

**Key changes in this note**

- Raise target price to Rs300 from Rs272 earlier.
- Introduced FY27F estimates.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	13.7	10.3	(8.0)
Relative (%)	10.6	0.5	(25.2)

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

# Kansai Nerolac Paints Limited

## Protecting market share remains critical

- Consolidated sales declined by 1.1% yoy to Rs21.3bn in 1QFY25. Overall/decorative volume growth stood at mid/low single digits, respectively.
- Gross margin/EBITDA margin expanded by 150bp/10bp yoy to 36.8%/15.5%, aided by mix improvement. Another round of price hikes will be taken soon.
- We retain our negative stance on KNPL and reiterate our REDUCE rating on it with a target price of Rs300 (29x Sep 2026F EPS) from Rs272 earlier.

### Decorative paints segment continues to drag overall growth

Kansai Nerolac Paints' (KNPL) 1QFY25 consolidated/standalone net sales declined by 1.1%/1% yoy to Rs21.3bn/Rs20.5bn, respectively. The overall volume grew in mid-single digits while the decorative paints segment grew in low single digits. KNPL's decorative segment posted slower growth due to a heatwave, general elections and labour shortage during the quarter. Saliency of NPDs remained at 10% while the Paint+ range contribution to decorative paint sales for the quarter improved. While KNPL's focus on driving premiumization is in the right direction, we believe that its journey of market share recovery will remain challenging, especially as the new entrant steps up its distribution.

### Industrial segment fared better; Premiumization remains a focus

KNPL's automotive segment saw good growth in the passenger vehicle segment while the commercial vehicle segment continued to remain subdued. The two-wheeler segment continued to see a recovery in demand. The tractor segment posted marginal growth on a high base. Non-automotive (performance coatings) business saw growth picking up in Jun 2024, with an increase in saliency of liquids. Management guidance entailed a high single digit volume growth in FY25 and higher optimism of better growth in 2HFY25F led by festive demand. Focus remains on improving the saliency of premium offerings across both decorative and industrial segments, which can aid in maintaining margins at similar levels.

### Margins expected to remain flat in the near term

KNPL posted gross margin expansion of 150bp, despite sales decline, largely led by an improvement in the sales mix, led by an improved saliency of the Paint+ range as well as mix improvement in the industrial segment. KNPL took price hikes in 2Q and one more round is expected to be in effect soon. Margins are expected to remain under pressure (flat yoy) unless a structural/sustainable improvement in the Paint+ range saliency is visible.

### Retain REDUCE rating with a target price of Rs300

Our concerns over KNPL regaining its market share in the decorative paint segment remains. We reiterate our REDUCE rating on the stock with a new target price of Rs300 (29x Sep 2026F), from Rs272 earlier, as we roll forward our valuation. Upside risk: Market share gains in the decorative paints segment.

**Research Analyst(s)**

**Rohan KALLE**  
T (91) 22 4161 1561  
E rohan.kalle@incredresearch.com

**Nishant BAGRECHA**  
T (91) 22 4161 1564  
E nishant.bagrecha@incredresearch.com

**Saurabh SINGH**  
T (91) 2241611558  
E saurabh.singh@incredresearch.com

**Financial Summary**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	75,427	78,014	83,985	91,035	98,707
Operating EBITDA (Rsm)	8,180	10,278	10,942	11,758	12,685
Net Profit (Rsm)	4,685	11,758	7,217	8,012	8,535
Core EPS (Rs)	8.7	8.4	8.9	9.9	10.6
Core EPS Growth	36.5%	(3.5%)	6.5%	11.0%	6.5%
FD Core P/E (x)	35.34	36.64	34.41	30.99	29.10
DPS (Rs)	4.7	5.6	6.6	7.8	9.2
Dividend Yield	2.30%	2.72%	3.21%	3.79%	4.47%
EV/EBITDA (x)	19.86	22.91	21.40	19.85	18.34
P/FCFE (x)	195.64	(61.34)	14.21	37.82	27.09
Net Gearing	(7.4%)	(23.3%)	(26.0%)	(26.6%)	(28.0%)
P/BV (x)	3.65	4.45	4.51	4.37	4.41
ROE	10.8%	13.4%	13.0%	14.3%	15.1%
% Change In Core EPS Estimates			(1.14%)	(3.59%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Protecting market share remains critical

### Highlights from 1QFY25 earnings call

#### Decorative business

- Decorative demand was muted. New businesses (construction chemicals, wood finishes, adhesives) witnessed good demand growth.
- Overall volume grew in mid-single digits.
- Premium product salience increased, which aided in gross margin expansion.
- Urban markets continued to perform better than rural markets, which are seeing some sequential improvement. Once rural markets start posting better growth, KNPL will be a beneficiary as it is relatively stronger in rural markets vs. industry.
- The Paint+ range (differentiated range) saw more new product launches. Salience improved during the quarter. Initiated a new series called Masterclass on You Tube for channel partners to learn about the company's new products.
- New texture paints were launched during the quarter. Excel No dust and Wow White were launched in the premium/popular categories, which have higher coverage in the market.
- Membranes were launched under construction chemicals.
- NPD contribution is at 10%.
- Launched Nerolac Knows platform on the company's website for customers to learn more about the product offerings.
- NXT Gen concept is now at above 100 stores (dealers). Smaller version (SIS) is also now at 100+ dealer counters. These have AI-based interactions with the customers to help suggest colours.
- Project business (6-7% contribution currently) is now at 78-79 towns. Growth has been healthy. Targeting high double-digit growth this year (targeting 10%+ salience).
- Digital initiatives have been stepped up. Migration of CRM to S4 Hana has been completed.
- Capacity expansion is on track. Adding 30% in decorative/water-based paints. Utilization stood at 60% in 1Q.

#### Industrial Business

##### Automotive business

- The passenger vehicle or PV segment witnessed decent demand. EV penetration is still low in India (c.2%), with two-wheelers at a 7% penetration level, presenting an opportunity for KNPL (high market share).
- Two-wheelers saw strong growth, which picked up from 3QFY24.
- Automotive: The focus remained on high-tech product offerings, in line with marquee client requirements. Introduced products which save energy and painting requirements for customers by launching mono coats.

##### Auto refinish

- The focus remains on adding more 'A' class body shops who consume more high-end PU coatings.
- Salience of premium PU coatings has improved in this segment.

##### Performance coatings

- Subdued demand due to general elections in India, but picked up in Jun 2024.
- The focus remains on high-tech products, which has aided in improving premium product salience.

## Input costs and margins

- Gross margin expansion was led by an improvement in the mix in the decorative paints and automotive segments.
- EBITDA margin in FY25F is expected to remain at a similar level as in FY24.
- Some raw material prices are turning inflationary.

## Outlook

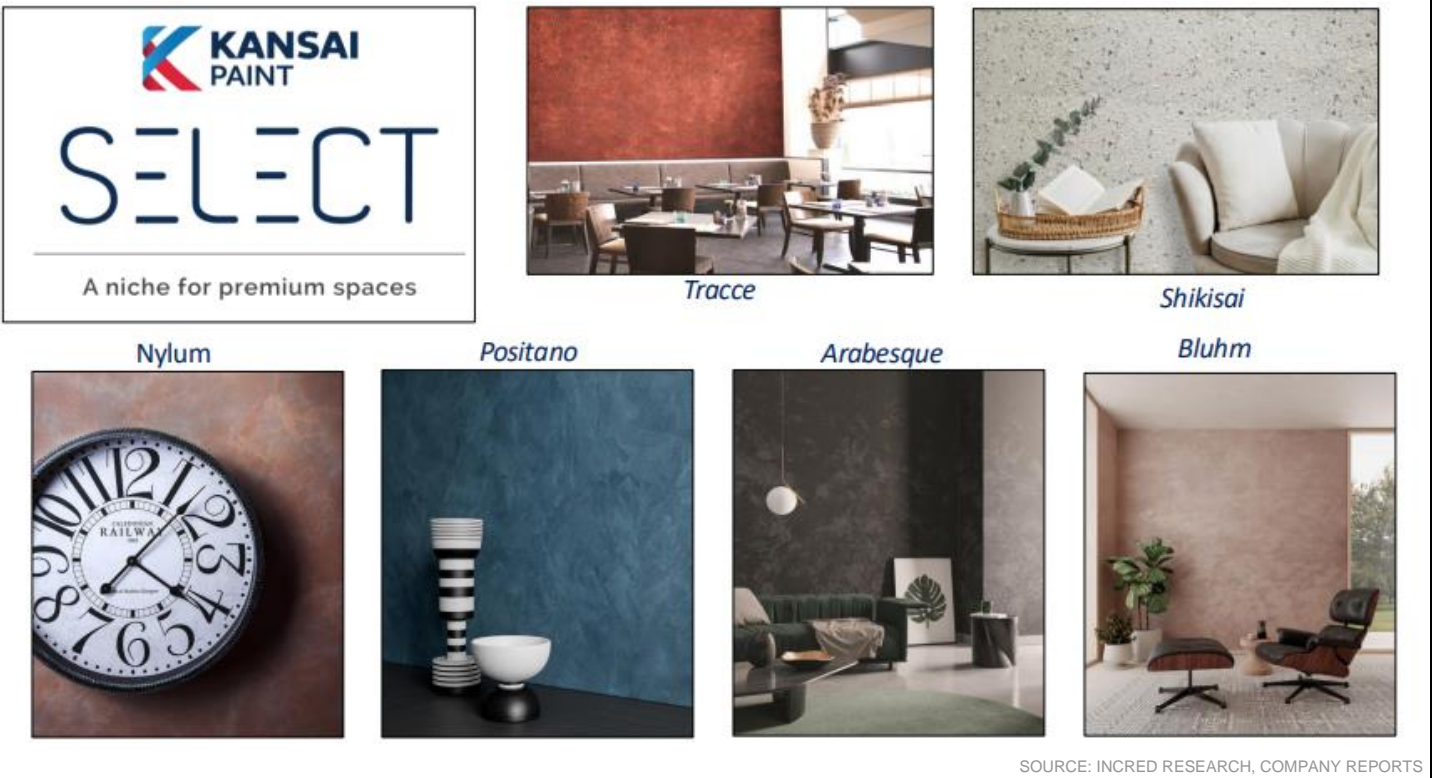
- Targeting 8-10% expansion in the distribution reach in FY25F.
- Favourable monsoons are expected to improve the demand for decorative paints closer to the upcoming festive season. Expecting a high single-digit volume growth this year. 2HFY25F is expected to be better than 1H for the industry.
- Automobile production growth is estimated at 6-7% for the year, which should be similar for KNPL. The infrastructure segment should benefit from the government's spending on infrastructure.
- Demand for performance coatings should be supported by the government's thrust on infrastructure growth.
- **Competitive intensity:** No impact on incumbents seen so far. No change in terms of extra warranties/grammage has been taken so far.

**Figure 1: Quarterly results summary – consolidated**

Y/E Mar (Rs. m)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
<b>Revenue</b>	<b>21,568</b>	<b>17,694</b>	<b>21,331</b>	-1.1	20.6	<b>75,427</b>	<b>78,014</b>	3.4
<b>Expenditure</b>	<b>18,253</b>	<b>15,904</b>	<b>18,035</b>	-1.2	13.4	<b>67,247</b>	<b>67,737</b>	0.7
Consumption of raw materials	13,961	11,615	13,477	-3.5	16.0	52,643	50,441	-4.2
as % of sales	64.7%	65.6%	63.2%			69.8%	64.7%	
Employee costs	1,072	1,158	1,245	16.2	7.6	3,771	4,486	19.0
as % of sales	5.0%	6.5%	5.8%			5.0%	5.8%	
Other expenditure	3,220	3,131	3,312	2.8	5.8	10,834	12,810	18.2
as % of sales	14.9%	17.7%	15.5%			14.4%	16.4%	
<b>EBITDA</b>	<b>3,315</b>	<b>1,790</b>	<b>3,296</b>	-0.6	<b>84.1</b>	<b>8,180</b>	<b>10,278</b>	<b>25.6</b>
Depreciation	467	480	481	3.1	0.4	1,801	1,905	5.8
<b>EBIT</b>	<b>2,848</b>	<b>1,311</b>	<b>2,815</b>	-1.2	<b>114.8</b>	<b>6,379</b>	<b>8,373</b>	<b>31.3</b>
Other income	172	325	338	96.7	4.0	260	919	253.7
Interest	71	70	72			290	292	
<b>PBT</b>	<b>2,949</b>	<b>1,566</b>	<b>3,081</b>	<b>4.5</b>	<b>96.8</b>	<b>6,349</b>	<b>9,000</b>	<b>41.8</b>
Total tax	898	423	832	-7.4	96.9	1,664	3,854	131.6
<b>Adjusted PAT</b>	<b>2,051</b>	<b>1,143</b>	<b>2,249</b>	<b>9.7</b>	<b>96.8</b>	<b>4,685</b>	<b>5,146</b>	<b>9.8</b>
Minority interest	-40	-17	-60			-51	-96	
<b>APAT after MI</b>	<b>2,091</b>	<b>1,160</b>	<b>2,308</b>	<b>10.4</b>	<b>98.9</b>	<b>4,736</b>	<b>5,242</b>	<b>10.7</b>
Extraordinary items	-5,290	0	0	-	-	0	-6,613	
<b>Reported PAT</b>	<b>7,381</b>	<b>1,160</b>	<b>2,308</b>	<b>-68.7</b>	<b>98.9</b>	<b>4,736</b>	<b>11,854</b>	<b>150.3</b>
<b>Adjusted EPS</b>	<b>13.7</b>	<b>2.2</b>	<b>4.3</b>	<b>-68.7</b>	<b>98.9</b>	<b>5.9</b>	<b>14.7</b>	<b>150.3</b>
<b>Margins (%)</b>	<b>1QFY24</b>	<b>4QFY24</b>	<b>1QFY25</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>FY23</b>	<b>FY24</b>	<b>(bp)</b>
Gross Margin	35.3%	34.4%	36.8%	150	250	30.2%	35.3%	510
EBITDA	15.4%	10.1%	15.5%	10	530	10.8%	13.2%	230
EBIT	13.2%	7.4%	13.2%	0	580	8.5%	10.7%	230
EBT	13.7%	8.8%	14.4%	80	560	8.4%	11.5%	310
PAT	9.5%	6.5%	10.5%	100	410	6.2%	6.6%	40
Effective tax rate	30.5%	27.0%	27.0%	(350)	0	26.2%	42.8%	1,660

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Stepping up focus on premium offerings with the launch of Kansai Select texture finishes**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: New product launches in 1QFY25 under the decorative paints segment**



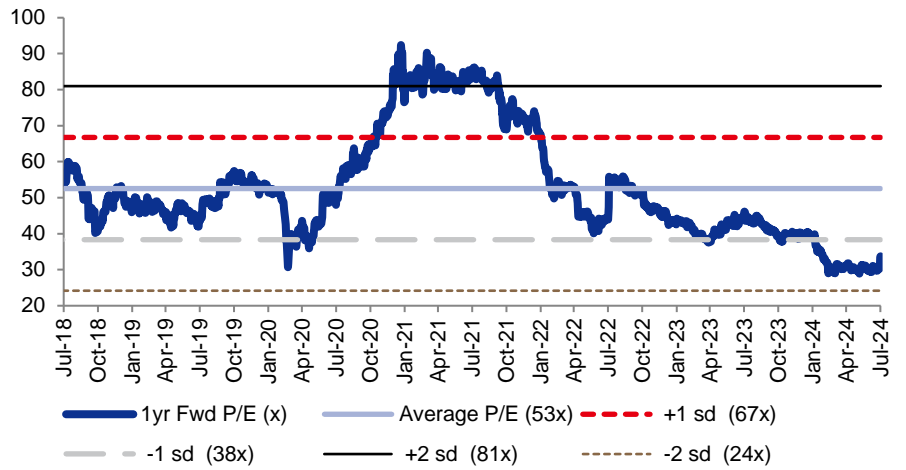
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Our revised earnings estimates**

Y/E Mar (Rs. m)	FY25F			FY26F			FY27F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Revenue	84,861	83,985	(1.0)	92,145	91,035	(1.2)	98,707
EBITDA	11,046	10,942	(0.9)	11,956	11,758	(1.7)	12,685
EBITDA Margin (%)	13.0%	13.0%	0 bp	13.0%	12.9%	-10 bp	12.9%
APAT	7,300	7,219	(1.1)	8,311	8,027	(3.4)	8,571
EPS	9.0	8.9	(1.1)	10.3	9.9	(3.4)	10.6

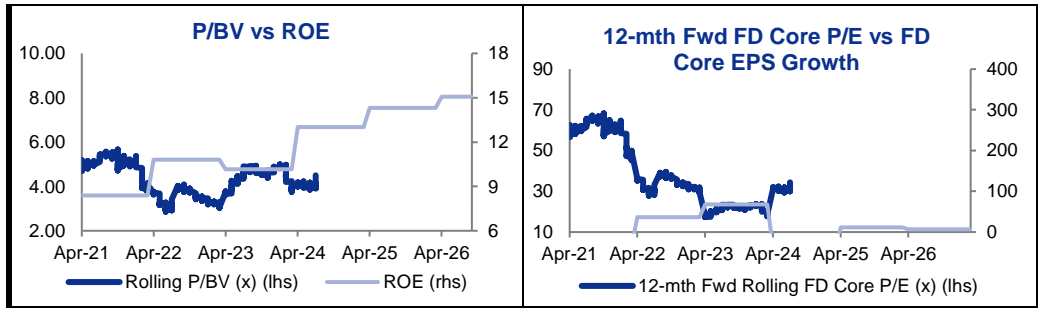
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	75,427	78,014	83,985	91,035	98,707
<b>Gross Profit</b>	22,785	27,573	29,329	31,408	33,642
<b>Operating EBITDA</b>	8,180	10,278	10,942	11,758	12,685
Depreciation And Amortisation	(1,801)	(1,905)	(2,036)	(2,159)	(2,263)
<b>Operating EBIT</b>	6,379	8,373	8,907	9,599	10,423
Financial Income/(Expense)	(30)	627	848	1,231	1,436
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	6,349	8,999	9,755	10,830	11,858
Exceptional Items		6,613			
<b>Pre-tax Profit</b>	6,349	15,612	9,755	10,830	11,858
Taxation	(1,664)	(3,854)	(2,538)	(2,817)	(3,323)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	4,685	11,758	7,217	8,012	8,535
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	4,685	11,758	7,217	8,012	8,535
Recurring Net Profit	4,685	6,778	7,217	8,012	8,535
<b>Fully Diluted Recurring Net Profit</b>	4,685	6,778	7,217	8,012	8,535

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	8,180	10,278	10,942	11,758	12,685
Cash Flow from Invt. & Assoc.	96				
Change In Working Capital	(706)	301	2,599	(1,255)	770
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
<b>Other Operating Cashflow</b>					
Net Interest (Paid)/Received	(290)	(292)	(284)	(310)	(310)
Tax Paid	(1,664)	(3,854)	(2,538)	(2,817)	(3,323)
<b>Cashflow From Operations</b>	5,615	6,433	10,719	7,376	9,822
Capex	(1,804)	(3,006)	(2,600)	(1,850)	(1,900)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(2,908)	(8,288)	8,229	(500)	(500)
Other Investing Cashflow	260	919	1,132	1,541	1,746
<b>Cash Flow From Investing</b>	(4,453)	(10,375)	6,761	(809)	(654)
Debt Raised/(repaid)	(317)	(106)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,815)	(6,754)	(7,969)	(9,404)	(11,097)
Preferred Dividends					
Other Financing Cashflow	3,223	12,037	30	3,127	2,073
<b>Cash Flow From Financing</b>	(910)	5,178	(7,939)	(6,277)	(9,023)
Total Cash Generated	253	1,235	9,541	289	145
<b>Free Cashflow To Equity</b>	846	(4,049)	17,480	6,566	9,168
<b>Free Cashflow To Firm</b>	1,453	(3,650)	17,765	6,876	9,478

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

**Balance Sheet**

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	6,250	15,829	17,140	17,930	18,574
Total Debtors	12,379	13,349	11,119	11,524	11,193
Inventories	17,291	16,875	18,481	20,909	22,660
Total Other Current Assets	4,900	4,661	5,136	5,530	5,959
<b>Total Current Assets</b>	<b>40,821</b>	<b>50,713</b>	<b>51,876</b>	<b>55,893</b>	<b>58,386</b>
Fixed Assets	22,013	23,114	23,678	23,370	23,007
Total Investments	32	73	73	73	73
Intangible Assets	198	198	198	198	198
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>22,243</b>	<b>23,385</b>	<b>23,949</b>	<b>23,640</b>	<b>23,278</b>
Short-term Debt	1,824	1,360	1,360	1,360	1,360
Current Portion of Long-Term Debt					
Total Creditors	13,011	13,505	16,535	18,508	21,127
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>14,834</b>	<b>14,865</b>	<b>17,895</b>	<b>19,868</b>	<b>22,487</b>
Total Long-term Debt	1,047	1,404	1,404	1,404	1,404
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>1,047</b>	<b>1,404</b>	<b>1,404</b>	<b>1,404</b>	<b>1,404</b>
Total Provisions	1,579	1,842	1,262	1,262	1,262
<b>Total Liabilities</b>	<b>17,460</b>	<b>18,111</b>	<b>20,562</b>	<b>22,534</b>	<b>25,154</b>
Shareholders Equity	45,337	55,826	55,103	56,838	56,350
Minority Interests	267	160	160	160	160
<b>Total Equity</b>	<b>45,604</b>	<b>55,986</b>	<b>55,264</b>	<b>56,999</b>	<b>56,510</b>

**Key Ratios**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	18.4%	3.4%	7.7%	8.4%	8.4%
Operating EBITDA Growth	26.0%	25.6%	6.5%	7.5%	7.9%
Operating EBITDA Margin	10.8%	13.2%	13.0%	12.9%	12.9%
Net Cash Per Share (Rs)	6.27	16.16	17.78	18.76	19.56
BVPS (Rs)	84.13	69.06	68.16	70.31	69.71
Gross Interest Cover	22.00	28.66	31.33	30.96	33.62
Effective Tax Rate	26.2%	24.7%	26.0%	26.0%	28.0%
Net Dividend Payout Ratio	81.4%	131.2%	110.4%	117.4%	130.0%
Accounts Receivables Days	56.41	60.19	53.17	45.39	42.00
Inventory Days	116.44	123.62	118.05	120.56	122.21
Accounts Payables Days	82.88	95.93	100.30	107.26	111.17
ROIC (%)	14.6%	18.7%	21.2%	22.3%	24.9%
ROCE (%)	13.4%	15.4%	15.0%	15.5%	16.3%
Return On Average Assets	7.8%	6.6%	8.5%	8.7%	8.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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