

India

**REDUCE** (no change)

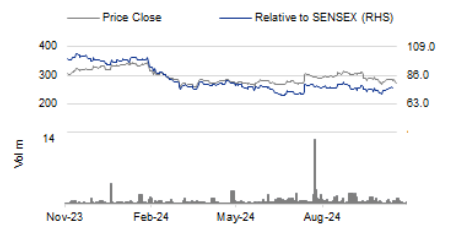
Consensus ratings\*: Buy 7 Hold 4 Sell 8

Current price:	Rs271
Target price:	Rs255
Previous target:	Rs300
Up/downside:	-5.9%
InCred Research / Consensus:	-20.6%
Reuters:	
Bloomberg:	KNPL IN
Market cap:	US\$3,019m
	Rs219,197m
Average daily turnover:	US\$3.3m
	Rs240.4m
Current shares o/s:	808.4m
Free float:	25.0%

\*Source: Bloomberg

**Key changes in this note**

- Lower target price to Rs255 from Rs300.
- Lower FY26/27F EPS by 3.7%/3.6%.

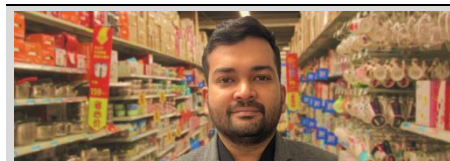


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.5)	(8.1)	(11.5)
Relative (%)	(3.0)	(8.8)	(27.6)

Major shareholders	% held
Promoter & Promoter Group	75.0
LIC	3.6
ICICI Prudential Life Insurance	1.2

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# Kansai Nerolac Paints Limited

## Weakness persists

- Consolidated sales declined by 0.3% yoy to Rs19.5bn in 2QFY25. The overall volume grew by c.4% while the decorative business saw a volume decline.
- Gross/EBITDA margins contracted 160bp/310bp yoy to 34%/10.9%. Management expects the EBITDA margin in the 13-14% range in near term.
- We retain our negative stance on KNPL and reiterate our REDUCE rating on it with a lower target price of Rs255 (26x Sep 2026F EPS) from Rs300 earlier.

### KNPL continues to lag industry growth over the past few years

Kansai Nerolac Paints' (KNPL) consolidated net sales declined by 0.3% yoy to Rs19.5bn while standalone recorded a growth of ~1% yoy Rs18.6bn in 2QFY25. The overall volume grew in mid-single digits (c.4%) while the decorative paints segment saw a decline, led by muted demand due to extended monsoons. Oct 2024 saw some improvement in demand, as per management, but there was some weakness towards the end of the month. In terms of regions, east & north Indian markets performed better in 2Q. KNPL claims urban demand remains firm, but with a new entrant aggressively stepping up its distribution reach & the No.2 player investing in increasing its penetration in urban markets, we expect KNPL to feel the pinch and fight a challenging uphill battle to regain its lost market share.

### Better performance in the industrial segment continues

KNPL's automotive segment witnessed good growth in the passenger vehicle space, with the improvement clocked in salience of new segments. The two-wheeler segment declined on account of weak demand. Non-automotive (performance coatings) business saw healthy growth led by high-performance coatings, with an increase in salience of liquids while powder coatings witnessed modest growth. Management's guidance entailed a high single-digit volume growth in FY25F for the decorative paint business and higher optimism of posting better growth in 2HFY25F led by festive & wedding demand. The focus remains on improving the salience of premium offerings across both decorative and industrial segments, which can aid in maintaining the margin at a similar level.

### Margin outlook remains unchanged; improvement looks difficult

KNPL witnessed gross margin contraction of 163bp, largely led by deterioration in the sales mix, further accentuated by better performance in the industrial segment, which registers a lower margin vs. the decorative business. KNPL took price hikes in 1HFY25, but the margin is expected to remain under pressure (flat yoy) unless there is a structural/sustainable improvement in the paint+ range & new product salience is visible.

### Retain REDUCE rating with a lower target price of Rs255

Our concerns over KNPL regaining its market share in the decorative paint segment remains unchanged. We reiterate our REDUCE rating on the stock with a lower target price of Rs255 (26x Sep 2026F EPS), from Rs300 earlier. Upside risk: Market share gains in the decorative paint segment.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	75,427	78,014	81,837	88,712	96,193
Operating EBITDA (Rsm)	8,180	10,278	10,564	11,353	12,251
Net Profit (Rsm)	4,685	11,758	6,937	7,713	8,223
Core EPS (Rs)	8.7	8.4	8.6	9.5	10.2
Core EPS Growth	36.5%	(3.5%)	2.3%	11.2%	6.6%
FD Core P/E (x)	31.19	32.34	31.60	28.42	26.66
DPS (Rs)	4.7	5.6	6.6	7.8	9.2
Dividend Yield	2.61%	3.08%	3.64%	4.29%	5.06%
EV/EBITDA (x)	17.48	20.07	19.39	17.99	16.65
P/FCFE (x)	172.68	(54.14)	12.40	34.78	24.82
Net Gearing	(7.4%)	(23.3%)	(26.5%)	(26.8%)	(27.7%)
P/BV (x)	3.22	3.93	4.00	3.90	3.95
ROE	10.8%	13.4%	12.5%	13.9%	14.7%
% Change In Core EPS Estimates			(3.88%)	(3.74%)	(3.66%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Weakness persists

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	Gr (%)
<b>Revenue</b>	<b>19,565</b>	<b>21,331</b>	<b>19,514</b>	-0.3	-8.5	<b>41,133</b>	<b>40,844</b>	-0.7
<b>Expenditure</b>	<b>16,833</b>	<b>18,035</b>	<b>17,395</b>	<b>3.3</b>	<b>-3.5</b>	<b>35,086</b>	<b>35,429</b>	<b>1.0</b>
Consumption of RM	12,600	13,477	12,884	2.3	-4.4	26,561	26,362	-0.8
as % of sales	64.4%	63.2%	66.0%			64.6%	64.5%	
Employee costs	1,085	1,245	1,246	14.8	0.0	2,157	2,491	15.5
as % of sales	5.5%	5.8%	6.4%			5.2%	6.1%	
Other expenditure	3,148	3,312	3,265	3.7	-1.4	6,368	6,577	3.3
as % of sales	16.1%	15.5%	16.7%			15.5%	16.1%	
<b>EBITDA</b>	<b>2,732</b>	<b>3,296</b>	<b>2,119</b>	<b>-22.4</b>	<b>-35.7</b>	<b>6,047</b>	<b>5,415</b>	<b>-10.5</b>
Depreciation	474	481	486	2.5	0.9	941	967	2.8
<b>EBIT</b>	<b>2,259</b>	<b>2,815</b>	<b>1,634</b>	<b>-27.7</b>	<b>-42.0</b>	<b>5,107</b>	<b>4,448</b>	<b>-12.9</b>
Other income	220	338	267	21.3	-21.1	392	605	54.3
Interest	76	72	73	-4.2	1.0	147	145	-1.6
<b>PBT</b>	<b>2,403</b>	<b>3,081</b>	<b>1,828</b>	<b>-23.9</b>	<b>-40.7</b>	<b>5,352</b>	<b>4,909</b>	<b>-8.3</b>
Total tax	648	832	630	-2.7	-24.3	2,869	1,462	-49.0
<b>Adjusted PAT</b>	<b>1,755</b>	<b>2,249</b>	<b>1,198</b>	<b>-31.8</b>	<b>-46.7</b>	<b>2,482</b>	<b>3,446</b>	<b>38.8</b>
Minority interest (MI)	-17	-60	-30			-57	-90	
<b>APAT after MI</b>	<b>1,772</b>	<b>2,308</b>	<b>1,228</b>	<b>-30.7</b>	<b>-46.8</b>	<b>2,539</b>	<b>3,536</b>	<b>39.3</b>
Extraordinary items	0	0	0	-	-	-6,613	0	
<b>Reported PAT</b>	<b>1,772</b>	<b>2,308</b>	<b>1,228</b>	<b>-30.7</b>	<b>-46.8</b>	<b>9,152</b>	<b>3,536</b>	<b>-61.4</b>
<b>Adjusted EPS</b>	<b>2.2</b>	<b>2.9</b>	<b>1.5</b>	<b>-30.7</b>	<b>-46.8</b>	<b>11.3</b>	<b>4.4</b>	<b>-61.4</b>
<b>Margins (%)</b>	<b>2QFY24</b>	<b>1QFY25</b>	<b>2QFY25</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>1HFY24</b>	<b>1HFY25</b>	<b>(bp)</b>
Gross margin	35.6%	36.8%	34.0%	-160	-280	35.4%	35.5%	0
EBITDA	14.0%	15.5%	10.9%	-310	-460	14.7%	13.3%	-140
EBIT	11.5%	13.2%	8.4%	-320	-480	12.4%	10.9%	-150
EBT	12.3%	14.4%	9.4%	-290	-510	13.0%	12.0%	-100
PAT	9.0%	10.5%	6.1%	-280	-440	6.0%	8.4%	240
Effective tax rate	27.0%	27.0%	34.5%	750	750	53.6%	29.8%	-2,380

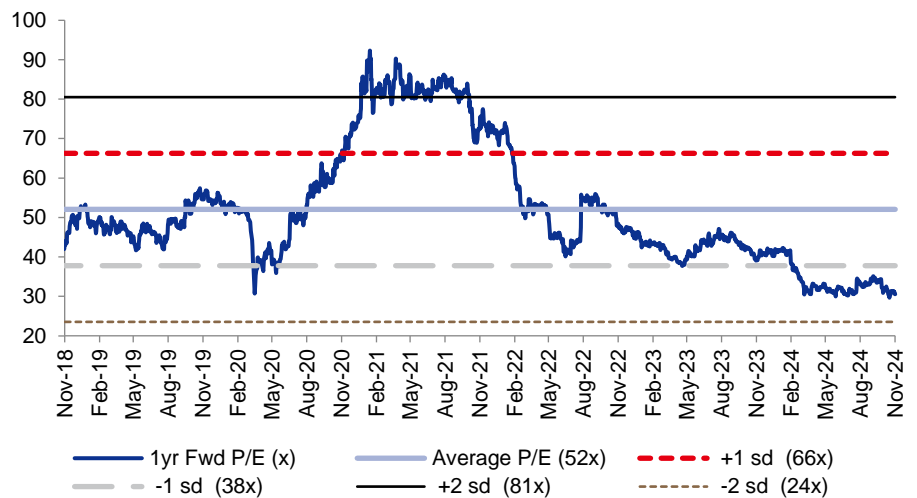
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue	83,985	81,837	(2.6)	91,035	88,712	(2.6)	98,707	96,193	(2.5)
EBITDA	10,942	10,564	(3.5)	11,758	11,353	(3.4)	12,685	12,251	(3.4)
EBITDA Margin (%)	13.0%	12.9%	-10 bp	12.9%	12.8%	-10 bp	12.9%	12.7%	-10 bp
APAT	7,217	6,937	(3.9)	8,012	7,713	(3.7)	8,535	8,223	(3.7)
EPS	8.9	8.6	(3.9)	9.9	9.5	(3.7)	10.6	10.2	(3.7)

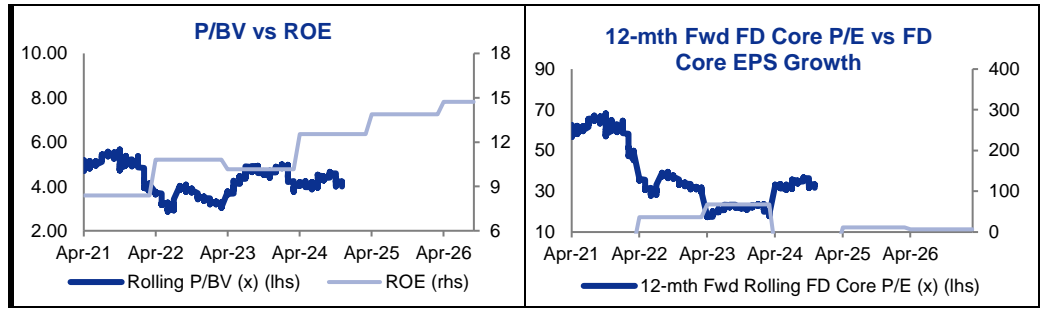
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	75,427	78,014	81,837	88,712	96,193
<b>Gross Profit</b>	22,785	27,573	28,577	30,607	32,788
<b>Operating EBITDA</b>	8,180	10,278	10,564	11,353	12,251
Depreciation And Amortisation	(1,801)	(1,905)	(2,036)	(2,159)	(2,263)
<b>Operating EBIT</b>	6,379	8,373	8,529	9,194	9,989
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	9,377	10,425	11,424
Exceptional Items		6,613			
<b>Pre-tax Profit</b>	6,349	15,612	9,377	10,425	11,424
Taxation	(1,664)	(3,854)	(2,440)	(2,712)	(3,202)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	4,685	11,758	6,937	7,713	8,223
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	4,685	11,758	6,937	7,713	8,223
Recurring Net Profit	4,685	6,778	6,937	7,713	8,223
<b>Fully Diluted Recurring Net Profit</b>	4,685	6,778	6,937	7,713	8,223

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	8,180	10,278	10,564	11,353	12,251
Cash Flow from Invt. & Assoc.	96				
Change In Working Capital	(706)	301	3,071	(1,220)	748
(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)	(2,440)	(2,712)	(3,202)
<b>Cashflow From Operations</b>	5,615	6,433	10,911	7,111	9,488
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	9,733	24	(190)
<b>Free Cashflow To Equity</b>	846	(4,049)	17,672	6,302	8,833
<b>Free Cashflow To Firm</b>	1,453	(3,650)	17,957	6,612	9,143

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	6,250	15,829	17,332	17,857	18,167
Total Debtors	12,379	13,349	10,854	11,250	10,931
Inventories	17,291	16,875	18,004	20,368	22,074
Total Other Current Assets	4,900	4,661	5,008	5,392	5,810
<b>Total Current Assets</b>	<b>40,821</b>	<b>50,713</b>	<b>51,199</b>	<b>54,867</b>	<b>56,982</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	16,138	18,061	20,614
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>14,834</b>	<b>14,865</b>	<b>17,498</b>	<b>19,421</b>	<b>21,974</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>20,164</b>	<b>22,088</b>	<b>24,641</b>
Shareholders Equity	45,337	55,826	54,823	56,259	55,458
Minority Interests	267	160	160	160	160
<b>Total Equity</b>	<b>45,604</b>	<b>55,986</b>	<b>54,984</b>	<b>56,420</b>	<b>55,619</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	18.4%	3.4%	4.9%	8.4%	8.4%
Operating EBITDA Growth	26.0%	25.6%	2.8%	7.5%	7.9%
Operating EBITDA Margin	10.8%	13.2%	12.9%	12.8%	12.7%
Net Cash Per Share (Rs)	6.27	16.16	18.02	18.67	19.05
BVPS (Rs)	84.13	69.06	67.82	69.59	68.60
Gross Interest Cover	22.00	28.66	30.00	29.66	32.22
Effective Tax Rate	26.2%	24.7%	26.0%	26.0%	28.0%
Net Dividend Payout Ratio	81.4%	131.2%	114.9%	121.9%	135.0%
Accounts Receivables Days	56.41	60.19	53.97	45.47	42.08
Inventory Days	116.44	123.62	119.52	120.52	122.16
Accounts Payables Days	82.88	95.93	101.57	107.41	111.32
ROIC (%)	14.6%	18.7%	20.5%	21.6%	24.1%
ROCE (%)	13.4%	15.4%	14.4%	14.9%	15.8%
Return On Average Assets	7.8%	6.6%	8.2%	8.4%	8.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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<b>Recommendation Framework</b>	
<b>Stock Ratings</b>	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
<b>Sector Ratings</b>	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
<b>Country Ratings</b>	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.