


India

REDUCE (no change)

Consensus ratings*: Buy 9 Hold 3 Sell 5

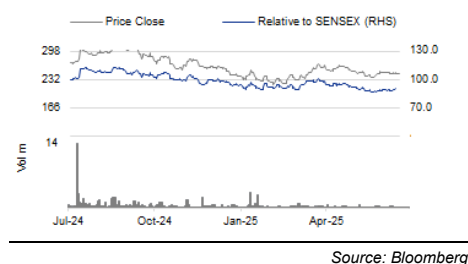
Current price: Rs242
 Target price:  Rs235
 Previous target: Rs235
 Up/downside: -2.9%
 InCred Research / Consensus: -16.5%

Reuters: KANE.NS
 Bloomberg: KNPL IN
 Market cap: US\$2,230m
 Rs195,795m
 Average daily turnover: US\$0.8m
 Rs67.3m
 Current shares o/s: 808.4m
 Free float: 25.0%

*Source: Bloomberg

Key changes in this note

- Introduce FY28F estimates.



Price performance	1M	3M	12M
Absolute (%)	(3.2)	(3.9)	(18.0)
Relative (%)	0.1	(4.0)	(20.2)

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

Kansai Nerolac Paints Limited

Expected to remain on a slow track

- Consol./standalone 1Q sales up 1.4%/1.8% yoy, respectively. The decorative segment was hit by early monsoons while the industrial business fared better.
- Consol. gross/EBITDA margins contracted 70bp/140bp yoy to 36.1%/14%, respectively. The EBITDA margin guidance of 13-14% remains unchanged.
- We don't foresee a material uptick in growth amidst elevated competitive intensity and maintain our REDUCE rating with an unchanged TP of Rs235.

Weakness persists in the decorative segment, dragged by monsoons

Kansai Nerolac Paints (KNPL) posted 1.4% sales growth in 1QFY26 on a consolidated basis. Standalone sales were up 1.8% yoy. The decorative segment declined in low single digits during the quarter, with flat volume growth, which was dampened by the early onset of monsoons this year and the impact of geopolitical tensions in North India. The Paint+ range continued to gain traction, with an uptick in salience. New businesses continued their momentum, with construction chemicals, waterproofing, and premium wood finishes performing well. New products' contribution to sales stood at 10% in 1Q. Project business posted mid-single digit growth, led by exterior textures and waterproofing categories. The services business continued to grow and is now at 5% of the decorative business. Network expansion continued, now at 30k direct dealers, along with an increase in indirect reach.

Industrial business still fares better than the decorative segment

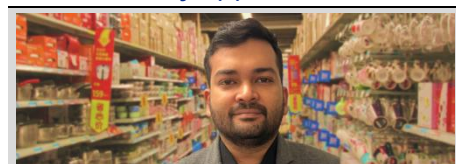
KNPL's industrial business continues to fare better than the decorative paints business, which has been reeling from elevated competitive intensity and weak industry demand. Automotive coatings continued to gain market share, despite sluggish demand. Performance coatings saw strong growth in liquid coatings while the demand for powder coatings was subdued due to slower growth in the appliances segment. KNPL will enter more segments under the industrial segment going ahead to drive growth.

Margin pressure is expected to continue in the medium term

Consolidated gross margin contracted 70bp yoy to 36.1%. EBITDA declined by 8% yoy to Rs3bn, while the EBITDA margin contracted 140bp yoy to 14%. Considering the intense competition in the industry and high rebating/promotional activity, we see limited room for margin improvement in the medium term (the 13-14% EBITDA margin guidance range remains unchanged). Management stated that some dealers who took up Birla Opus dealership are coming back in favour of KNPL, and that the competitive intensity has slowed.

Outlook remains muted; retain REDUCE rating with a TP of Rs235

We do not expect a material uptick in growth for KNPL at this point considering the intense competition from new entrants and high rebating intensity prevailing in the industry. We retain our REDUCE rating on KNPL with a target price of Rs235 (25x Sep 2027F EPS), as we roll forward. Upside risks: Better-than-expected growth and improvement in margins.

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

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	78,014	78,230	81,463	85,614	90,643
Operating EBITDA (Rsm)	10,278	9,423	9,871	10,465	11,496
Net Profit (Rsm)	11,758	4,798	6,639	7,157	7,963
Core EPS (Rs)	8.4	5.9	8.2	8.9	9.9
Core EPS Growth	(3.5%)	(29.2%)	38.4%	7.8%	11.3%
FD Core P/E (x)	28.88	40.80	29.49	27.35	24.59
DPS (Rs)	5.6	6.6	7.8	9.2	10.8
Dividend Yield	3.45%	4.07%	4.80%	5.67%	6.69%
EV/EBITDA (x)	17.79	18.80	18.99	17.69	16.11
P/FCFE (x)	(48.35)	(55.70)	23.51	19.20	16.43
Net Gearing	(23.3%)	(28.7%)	(12.5%)	(16.3%)	(17.5%)
P/BV (x)	3.51	3.05	3.00	3.06	3.29
ROE	13.4%	8.0%	10.3%	11.1%	12.9%
% Change In Core EPS Estimates			(9.36%)	(8.50%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Expected to remain on a slower track

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	1QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)	FY24	FY25	Gr (%)
Revenue	21,331	18,167	21,620	1.4	19.0	78,014	78,230	0.3
Expenditure	18,035	16,509	18,589	3.1	12.6	67,737	68,807	1.6
Consumption of Raw Materials	13,477	11,886	13,821	2.5	16.3	50,441	50,693	0.5
as % of sales	63.2%	65.4%	63.9%			64.7%	64.8%	
Employee Costs	1,245	1,315	1,338	7.4	1.8	4,486	5,019	11.9
as % of sales	5.8%	7.2%	6.2%			5.8%	6.4%	
Other Expenditure	3,312	3,309	3,430	3.6	3.7	12,810	13,094	2.2
as % of sales	15.5%	18.2%	15.9%			16.4%	16.7%	
EBITDA	3,296	1,657	3,032	-8.0	82.9	10,278	9,423	-8.3
Depreciation	481	516	529	10.0	2.6	1,905	2,017	5.9
EBIT	2,815	1,141	2,502	-11.1	119.3	8,373	7,406	-11.5
Other Income	338	371	526	55.5	41.8	919	1,392	51.4
Interest	72	77	74	2.1	-4.3	292	313	7.0
PBT	3,081	1,435	2,955	-4.1	105.9	9,000	8,485	-5.7
Total Tax	832	411	799	-4.0	94.4	2,530	3,687	45.7
Adjusted PAT	2,249	1,024	2,156	-4.1	110.5	6,469	4,798	-25.8
Minority Interest (MI)	-60	-60	-53			-96	-336	
APAT after MI	2,308	1,085	2,209	-4.3	103.7	6,565	5,134	-21.8
Extraordinary items	0	0	0	-	-	-5,290	-6,295	
Reported PAT	2,308	1,085	2,209	-4.3	103.7	11,855	11,430	-3.6

Margins (%)	1QFY25	4QFY25	1QFY26	YoY (bp)	QoQ (bp)	FY24	FY25	(bp)
Gross Margins	36.8%	34.6%	36.1%	-70	150	35.3%	35.2%	-10
EBITDA	15.5%	9.1%	14.0%	-140	490	13.2%	12.0%	-110
EBIT	13.2%	6.3%	11.6%	-160	530	10.7%	9.5%	-130
EBT	14.4%	7.9%	13.7%	-80	580	11.5%	10.8%	-70
PAT	10.5%	5.6%	10.0%	-60	430	8.3%	6.1%	-220
Effective Tax Rate	27.0%	28.6%	27.0%	-	-160	28.1%	43.5%	1,530

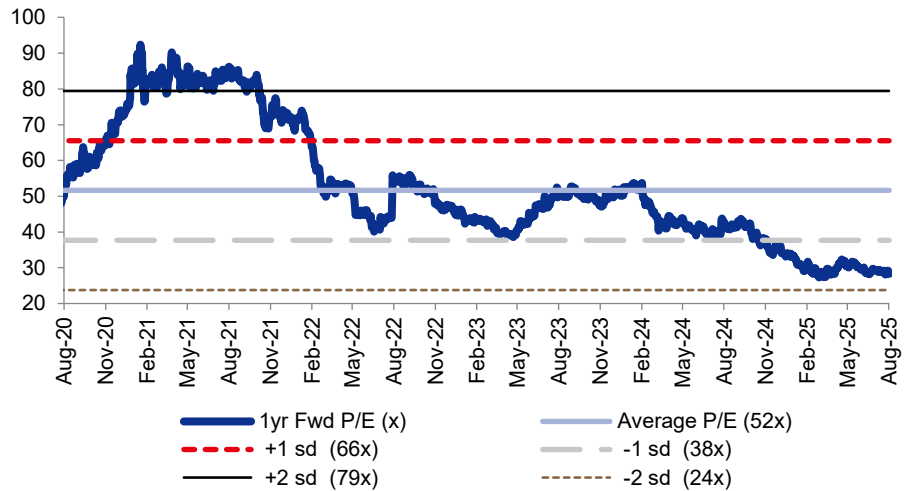
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY26F			FY27F			FY28F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Revenue	85,698	81,463	(4.9)	92,968	85,614	(7.9)	90,643
EBITDA	10,829	9,871	(8.8)	11,695	10,465	(10.5)	11,496
EBITDA Margin (%)	12.6%	12.1%	-50bp	12.6%	12.2%	-40bp	12.7%
APAT	7,325	6,639	(9.4)	7,822	7,157	(8.5)	7,963
EPS	9.1	8.2	(9.4)	9.7	8.9	(8.5)	9.9

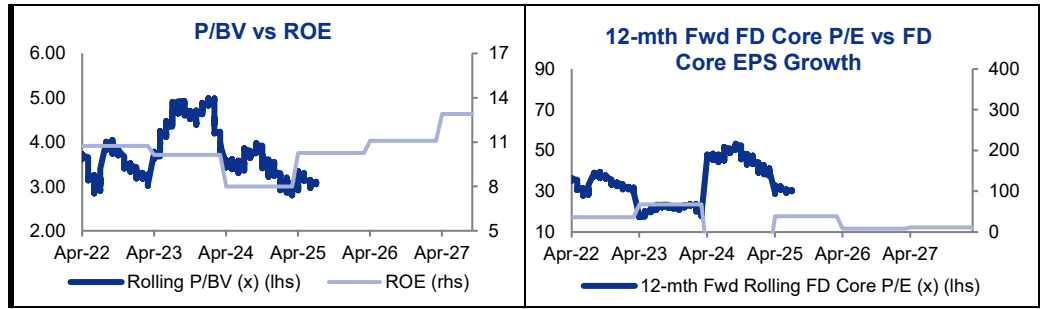
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: KNPL's one-year forward P/E trades close to its -2SD level



SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	78,014	78,230	81,463	85,614	90,643
Gross Profit	27,573	27,537	28,316	29,406	31,275
Operating EBITDA	10,278	9,423	9,871	10,465	11,496
Depreciation And Amortisation	(1,905)	(2,017)	(2,134)	(2,237)	(2,343)
Operating EBIT	8,373	7,406	7,737	8,227	9,153
Financial Income/(Expense)	627	1,079	1,247	1,457	1,620
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,999	8,485	8,985	9,685	10,772
Exceptional Items	6,613				
Pre-tax Profit	15,612	8,485	8,985	9,685	10,772
Taxation	(3,854)	(3,687)	(2,346)	(2,527)	(2,810)
Exceptional Income - post-tax					
Profit After Tax	11,758	4,798	6,639	7,157	7,963
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,758	4,798	6,639	7,157	7,963
Recurring Net Profit	6,778	4,798	6,639	7,157	7,963
Fully Diluted Recurring Net Profit	6,778	4,798	6,639	7,157	7,963

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	10,278	9,423	9,871	10,465	11,496
Cash Flow from Invt. & Assoc.					
Change In Working Capital	301	(1,730)	(11,556)	3,204	4,010
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(292)	(313)	(315)	(318)	(320)
Tax Paid	(3,854)	(3,687)	(2,346)	(2,527)	(2,810)
Cashflow From Operations	6,433	3,694	(4,346)	10,823	12,376
Capex	(3,006)	(3,556)	(1,850)	(1,900)	(1,900)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(8,288)	(5,244)	12,960	(500)	(500)
Other Investing Cashflow	919	1,392	1,562	1,775	1,940
Cash Flow From Investing	(10,375)	(7,408)	12,672	(625)	(460)
Debt Raised/(repaid)	(106)	200			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,754)	(7,969)	(9,404)	(11,097)	(13,094)
Preferred Dividends					
Other Financing Cashflow	12,037	11,276	3,750	2,712	659
Cash Flow From Financing	5,178	3,506	(5,654)	(8,385)	(12,434)
Total Cash Generated	1,235	(208)	2,673	1,814	(519)
Free Cashflow To Equity	(4,049)	(3,515)	8,326	10,199	11,915
Free Cashflow To Firm	(3,650)	(3,402)	8,641	10,517	12,235

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	15,829	21,360	11,073	13,387	13,368
Total Debtors	13,349	13,567	16,179	16,007	15,450
Inventories	16,875	16,651	20,890	20,207	19,590
Total Other Current Assets	4,661	5,829	8,495	9,333	8,674
Total Current Assets	50,713	57,407	56,636	58,934	57,082
Fixed Assets	23,114	24,653	24,369	24,032	23,589
Total Investments	73	86	86	86	86
Intangible Assets	198	25	25	25	25
Total Other Non-Current Assets					
Total Non-current Assets	23,385	24,763	24,480	24,142	23,700
Short-term Debt	1,360	1,209	1,209	1,209	1,209
Current Portion of Long-Term Debt					
Total Creditors	13,505	12,999	11,477	14,666	16,842
Other Current Liabilities					
Total Current Liabilities	14,865	14,208	12,687	15,875	18,052
Total Long-term Debt	1,404	1,755	1,755	1,755	1,755
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,404	1,755	1,755	1,755	1,755
Total Provisions	1,842	2,163	1,645	1,645	1,645
Total Liabilities	18,111	18,126	16,086	19,274	21,451
Shareholders Equity	55,826	64,232	65,217	63,989	59,517
Minority Interests	160	(187)	(187)	(187)	(187)
Total Equity	55,986	64,045	65,030	63,802	59,330

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	3.4%	0.3%	4.1%	5.1%	5.9%
Operating EBITDA Growth	25.6%	(8.3%)	4.8%	6.0%	9.9%
Operating EBITDA Margin	13.2%	12.0%	12.1%	12.2%	12.7%
Net Cash Per Share (Rs)	16.16	22.76	10.03	12.89	12.87
BVPS (Rs)	69.06	79.46	80.67	79.15	73.62
Gross Interest Cover	28.66	23.70	24.56	25.87	28.60
Effective Tax Rate	24.7%	43.5%	26.1%	26.1%	26.1%
Net Dividend Payout Ratio	131.2%	166.1%	141.7%	155.0%	164.4%
Accounts Receivables Days	60.19	62.79	66.64	68.61	63.33
Inventory Days	123.62	120.69	128.91	133.44	122.34
Accounts Payables Days	95.93	95.41	84.05	84.88	96.86
ROIC (%)	18.7%	15.5%	13.2%	15.0%	18.1%
ROCE (%)	15.3%	11.7%	10.8%	11.3%	13.2%
Return On Average Assets	6.6%	4.8%	6.6%	6.9%	7.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Registration granted by SEBI, membership of a SEBI recognized supervisory body (if any) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework

Stock Ratings

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.

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.

Sector Ratings

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.

Country Ratings

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.