

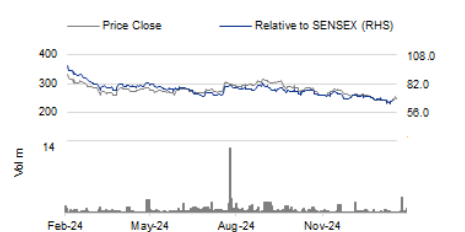
India

REDUCE (no change)

Consensus ratings*:	Buy 7	Hold 4	Sell 8
Current price:	Rs249		
Target price:	Rs235		
Previous target:	Rs255		
Up/downside:	-5.6%		
InCred Research / Consensus:	-19.1%		
Reuters:	KNPL IN		
Bloomberg:	US\$2,772m		
Market cap:	Rs201,294m		
Average daily turnover:	US\$2.3m		
	Rs170.6m		
Current shares o/s:	808.4m		
Free float:	25.0%		
*Source: Bloomberg			

Key changes in this note

- Lower the target price to Rs235 from Rs255.
- Lower FY25F/26F EPS by 5.3%/4.9%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.5)	(11.0)	(21.6)
Relative (%)	(4.0)	(9.1)	(27.3)

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

Kansai Nerolac Paints Limited

Outlook remains weak

- Consolidated sales remained flat yoy in 3QFY25. The overall volume growth was marginal while the decorative range witnessed a low single-digit decline.
- The EBITDA margin contracted 110bp yoy to 12.9% in 9MFY25. Management maintains its EBITDA margin guidance of 13-14% for the near term.
- We retain our negative stance on KNPL and reiterate our REDUCE rating on it with a lower target price of Rs235 (25x Sep 2026F EPS) from Rs255 earlier.

Decorative segment continues to remain under stress

Kansai Nerolac Paints' (KNPL) consol. net sales remained flat yoy at Rs19.2bn (in line with our estimate) while standalone net sales posted a growth of 1.5% yoy at Rs18.4bn in 3QFY25. The overall volume growth was marginal in 3Q, while the decorative paint segment saw a low single-digit volume decline, led by muted demand in the industry. Within the decorative segment, new products and the Paint+ range contribution stood at 10% salience each. New business segments like construction chemicals & premium wood finishes now account for 10% of the decorative segment's sales. Project business saw double-digit growth. Services business now accounts for 5% of the decorative segment's sales. KNPL expects urban markets to recover gradually; however, with the new entrant (Birla Opus) aggressively stepping up its distribution reach and the top two players investing in increasing their penetration in urban markets, we expect KNPL to feel the pinch and fight an uphill battle to regain lost market share.

Industrial business continues to fare better

KNPL's automotive segment saw good growth in passenger vehicle & two-wheeler segments led by festive demand. The tractor segment remained subdued. Non-automotive (performance coatings) business saw sustained growth led by high-performance coatings, with a better performance in the liquid range, while the powder category saw qoq improvement. The auto refinish segment saw high single-digit growth led by the expansion of auto body shops. Innovation in the industrial segment continued, with the focus remaining on improving the salience of premium products to support margins.

Outlook remains weak; reiterate REDUCE rating

KNPL witnessed gross margin contraction of 80bp/20bp yoy to 35.2%/35.4% in 3Q/9MFY25, respectively, largely led by deterioration in the overall sales mix as the decorative segment continues to remain muted amidst weak demand & heightened competition. Given the current dynamics of the paint industry and the competitive pressure, our concerns over KNPL regaining/maintaining its market share in the decorative paint segment remain unchanged. As paint majors step up their focus on B2B/industrial verticals, addition of new customers in these segments will remain challenging. We reiterate our REDUCE rating on the stock with a lower target price of Rs235 (25x Sep 2026F EPS), from Rs255 earlier. Upside risk: Market share gains in the decorative paint 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	79,020	85,698	92,968
Operating EBITDA (Rsm)	8,180	10,278	10,068	10,829	11,695
Net Profit (Rsm)	4,685	11,758	6,570	7,325	7,822
Core EPS (Rs)	8.7	8.4	8.1	9.1	9.7
Core EPS Growth	36.5%	(3.5%)	(3.1%)	11.5%	6.8%
FD Core P/E (x)	28.64	29.70	30.64	27.48	25.73
DPS (Rs)	4.7	5.6	6.6	7.8	9.2
Dividend Yield	2.84%	3.36%	3.96%	4.67%	5.51%
EV/EBITDA (x)	16.02	18.33	18.54	17.22	15.95
P/FCFE (x)	158.57	(49.72)	11.23	33.82	23.97
Net Gearing	(7.4%)	(23.3%)	(27.1%)	(26.9%)	(27.3%)
P/BV (x)	2.94	3.61	3.70	3.63	3.71
ROE	10.7%	13.4%	11.9%	13.3%	14.2%
% Change In Core EPS Estimates			(5.29%)	(5.03%)	(4.87%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Outlook remains weak

Highlights from the 3QFY25 earnings call

Highlights

- Paint volume growth is marginally positive with a low single-digit decline. The industrial segment grew in high single-digit value growth. The overall volume is marginally positive, aided by the industrial segment.
- KNPL is stronger in North and East followed by West and South India. In weaker markets, it focused on projects business, which aided growth.
- **Distribution:** Expansion was broadly in line with the target (c.10% expansion). Tinting machine penetration stood at 75%. The number of distributors is in the 35k-40k range, as per management. The share of the rural market for KNPL is 30-35% in the decorative paint business.
- **Retail business:** Worked on strengthening the influencer program and services (introduced two years ago; now 5% of the decorative paint segment's sales). The focus is on increasing the number of painters associated with KNPL.
- **Competitive intensity:** From management's perspective, it takes time to build a brand and strong influencer channel. As of now, management believes that there is more marketing activity vs. differentiation in terms of product. Redistribution in market share is underway (which, management believes, will get reset in two-to-three years). Management believes that the new entrant has gained numeric reach; however, weighted distribution (building sustainable sales) is yet to be seen. The impact on No. 2-3 players is lesser, as per management. Management believes the new entrant has a 4-5% market share currently.
- The premium segment continued to fare better, while putty and distemper registered a decline. Putty pricing in the industry remained aggressive. KNPL does not participate aggressively in putty (outsourced manufacturing by KNPL; margin is very low).
- Project business continues to grow in double digits, and its presence increased to 80+ towns.
- NPD accounts for 10% of the decorative paint business. Launched Wow White Range – a differentiated offering within white shades - available at various price points. Also launched interior emulsions, wood finishes and construction chemical products in 9MFY25.
- The Paint+ now range has 10% salience in the decorative paint segment.
- New business (construction chemicals + premium wood finishes) now has 10% salience of the decorative paint segment.
- Services business now at 5% of the decorative paint segment.
- The current MD, Mr. Anuj Jain, will retire, and Mr. Pravin Chaudhari will take over the mantle from 1 Apr 2025.
- Current capacity: 6.16 lakh KL per year.

Industrial business

Automotive business (c.70% of industrial business - annual basis; 60% market share)

- The focus on technologically superior products has yielded good growth. New segments like alloy wheels, sealants, etc. are also doing well. The market share in the automotive segment is increasing, despite a high base.
- Matt clear coat for passenger vehicles, Clears for two-wheelers, PU finishes (mono-coats), etc. were launched in the segment. In electric vehicle or EV products, the market share is in line with the overall market share.

- Auto refinish: The focus on A class body shops has aided growth in premium products. The market share is in low single digits; increasing it gradually yoy. KNPL will focus only on those segments within this space where it is growing in double digits.
- Non-auto (general, high performance and powder coatings): The business development team has been expanded. The number of dealers has increased significantly. The contribution of the channel has also increased. Seeing good traction in government projects.
- Focus on the premium segment (exited low-profit segments) on performance coatings is aiding a better product mix.

Outlook

- **Industrial business:** Passenger vehicle and two-wheeler segments are expected to remain healthy. The tractor segment is expected to show an improvement in trajectory. Performance coatings are expected to remain strong.
- Targeting a 13-14% EBITDA margin range (unchanged).

Figure 1: Quarterly results summary – consolidated

Y/E Mar (Rs. m)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	Gr (%)
Revenue	19,187	19,514	19,219	0.2	-1.5	60,321	60,063	-0.4
Expenditure	16,747	17,395	16,868	0.7	-3.0	51,833	52,297	0.9
Consumption of RM	12,266	12,884	12,446	1.5	-3.4	38,827	38,808	0.0
as % of sales	63.9%	66.0%	64.8%			64.4%	64.6%	
Employee Costs	1,171	1,246	1,213	3.6	-2.6	3,328	3,704	11.3
as % of sales	6.1%	6.4%	6.3%			5.5%	6.2%	
Other Expenditure	3,310	3,265	3,209	-3.1	-1.7	9,678	9,785	1.1
as % of sales	17.3%	16.7%	16.7%			16.0%	16.3%	
EBITDA	2,440	2,119	2,351	-3.7	10.9	8,487	7,766	-8.5
Depreciation	484	486	534	10.3	10.0	1,425	1,501	5.3
EBIT	1,956	1,634	1,817	-7.1	11.2	7,062	6,265	-11.3
Other Income	201	267	415	106.3	55.5	594	1,021	72.0
Interest	75	73	91	21.4	24.6	222	236	6.2
PBT	2,082	1,828	2,141	2.8	17.2	7,434	7,050	-5.2
Total Tax	561	630	1,814	223.1	187.9	2,108	3,276	55.4
Adjusted PAT	1,521	1,198	328	-78.5	-72.6	5,326	3,774	-29.1
Minority Interest (MI)	-22	-30	-186			-78	-276	
APAT after MI	1,543	1,228	514	-66.7	-58.2	5,405	4,050	-25.1
Extraordinary Items	0	0	-6,295	-	-	-5,290	-6,295	
Reported PAT	1,543	1,228	6,809	341.4	454.5	10,695	10,345	-3.3
Margins (%)	3QFY24	2QFY25	3QFY25	YoY (bp)	QoQ (bp)	9MFY24	9MFY25	(bp)
Gross Margin	36.1%	34.0%	35.2%	-80	130	35.6%	35.4%	-20
EBITDA	12.7%	10.9%	12.2%	-50	140	14.1%	12.9%	-110
EBIT	10.2%	8.4%	9.5%	-70	110	11.7%	10.4%	-130
EBT	10.9%	9.4%	11.1%	30	180	12.3%	11.7%	-60
PAT	7.9%	6.1%	1.7%	-620	-440	8.8%	6.3%	-250
Effective Tax Rate	27.0%	34.5%	84.7%	5,770	5,020	28.4%	46.5%	1,810

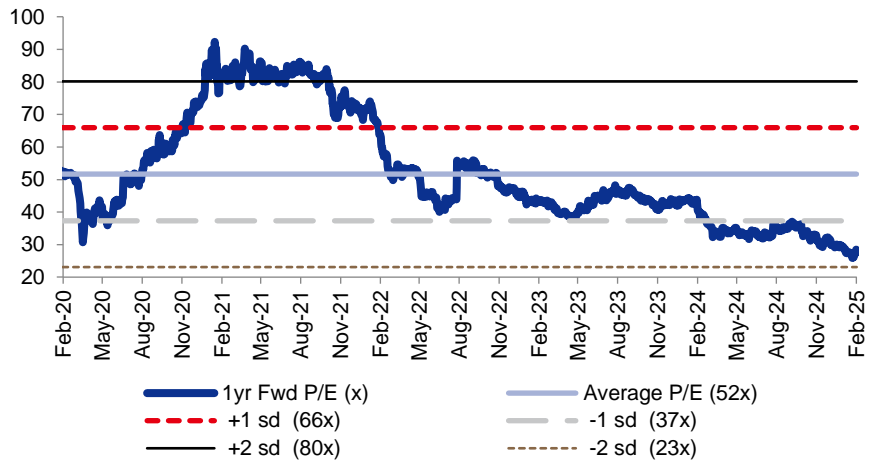
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue	81,837	79,020	(3.4)	88,712	85,698	(3.4)	96,193	92,968	(3.4)
EBITDA	10,564	10,068	(4.7)	11,353	10,829	(4.6)	12,251	11,695	(4.5)
EBITDA Margin (%)	12.9%	12.7%	-20 bp	12.8%	12.6%	-20 bp	12.7%	12.6%	-20 bp
APAT	6,937	6,570	(5.3)	7,713	7,325	(5.0)	8,223	7,822	(4.9)
EPS	8.6	8.1	(5.3)	9.5	9.1	(5.0)	10.2	9.7	(4.9)

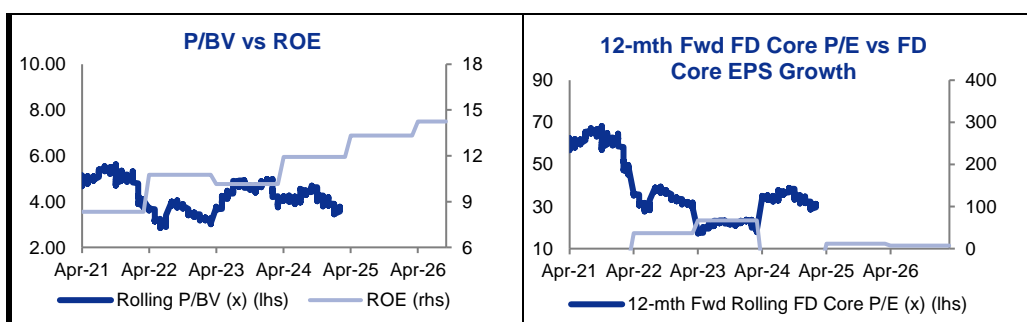
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	75,427	78,014	79,020	85,698	92,968
Gross Profit	22,785	27,573	27,592	29,568	31,692
Operating EBITDA	8,180	10,278	10,068	10,829	11,695
Depreciation And Amortisation	(1,801)	(1,905)	(2,036)	(2,159)	(2,263)
Operating EBIT	6,379	8,373	8,033	8,670	9,432
Financial Income/(Expense)	(30)	627	848	1,231	1,436
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,349	8,999	8,881	9,901	10,868
Exceptional Items		6,613			
Pre-tax Profit	6,349	15,612	8,881	9,901	10,868
Taxation	(1,664)	(3,854)	(2,311)	(2,576)	(3,046)
Exceptional Income - post-tax					
Profit After Tax	4,685	11,758	6,570	7,325	7,822
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,685	11,758	6,570	7,325	7,822
Recurring Net Profit	4,685	6,778	6,570	7,325	7,822
Fully Diluted Recurring Net Profit	4,685	6,778	6,570	7,325	7,822

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	8,180	10,278	10,068	10,829	11,695
Cash Flow from Invt. & Assoc.	96				
Change In Working Capital	(706)	301	3,690	(1,182)	712
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(290)	(292)	(284)	(310)	(310)
Tax Paid	(1,664)	(3,854)	(2,311)	(2,576)	(3,046)
Cashflow From Operations	5,615	6,433	11,162	6,760	9,051
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
Cash Flow From Investing	(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
Cash Flow From Financing	(910)	5,178	(7,939)	(6,277)	(9,023)
Total Cash Generated	253	1,235	9,985	(326)	(627)
Free Cashflow To Equity	846	(4,049)	17,924	5,951	8,397
Free Cashflow To Firm	1,453	(3,650)	18,208	6,261	8,707

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	17,584	17,758	17,631
Total Debtors	12,379	13,349	10,507	10,895	10,596
Inventories	17,291	16,875	17,379	19,666	21,323
Total Other Current Assets	4,900	4,661	4,840	5,212	5,617
Total Current Assets	40,821	50,713	50,310	53,532	55,168
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					
Total Non-current Assets	22,243	23,385	23,949	23,640	23,278
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	15,616	17,481	19,956
Other Current Liabilities					
Total Current Liabilities	14,834	14,865	16,976	18,841	21,316
Total Long-term Debt	1,047	1,404	1,404	1,404	1,404
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,047	1,404	1,404	1,404	1,404
Total Provisions	1,579	1,842	1,262	1,262	1,262
Total Liabilities	17,460	18,111	19,643	21,508	23,983
Shareholders Equity	45,607	55,826	54,456	55,504	54,302
Minority Interests	267	160	160	160	160
Total Equity	45,874	55,986	54,617	55,664	54,463

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	18.4%	3.4%	1.3%	8.5%	8.5%
Operating EBITDA Growth	26.0%	25.6%	(2.0%)	7.6%	8.0%
Operating EBITDA Margin	10.8%	13.2%	12.7%	12.6%	12.6%
Net Cash Per Share (Rs)	6.27	16.16	18.33	18.55	18.39
BVPS (Rs)	84.63	69.06	67.36	68.66	67.17
Gross Interest Cover	22.00	28.66	28.25	27.97	30.43
Effective Tax Rate	26.2%	24.7%	26.0%	26.0%	28.0%
Net Dividend Payout Ratio	81.4%	131.2%	121.3%	128.4%	141.9%
Accounts Receivables Days	56.41	60.19	55.10	45.58	42.19
Inventory Days	116.44	123.62	121.55	120.45	122.08
Accounts Payables Days	82.88	95.93	103.34	107.61	111.50
ROIC (%)	14.6%	18.7%	19.6%	20.7%	23.1%
ROCE (%)	13.4%	15.3%	13.6%	14.1%	15.1%
Return On Average Assets	7.8%	6.6%	7.7%	8.0%	8.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.