

# Kansai Nerolac Paints Ltd.

**HOLD**

Sector: Paints

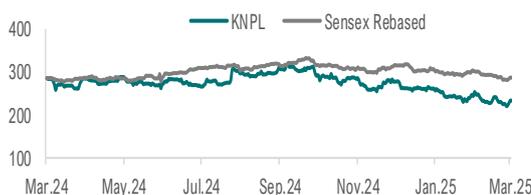
07<sup>th</sup> March 2025

Key Changes		Target	Rating	Earnings		Target	Rs.258
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	<b>CMP</b>	<b>Rs.234</b>
Mid Cap	KNPL:IN	74,340	KANSAINER	500165	12 Months	<b>Return</b>	<b>+10%</b>

Data as of: 06-03-2025

Company Data			
Market Cap (Cr)	18,916		
52 Week High — Low (Rs.)	321-218		
Enterprise Value (cr)	17,649		
Outstanding Shares (Rs cr)	0.472		
Free Float (%)	25.0		
Dividend Yield (%)	1.07		
6m average volume (cr)	0.06		
Beta	0.61		
Face value (Rs)	1		
Shareholding (%)	Q1FY25	Q2FY25	Q3FY25
Promoters	75.0	75.0	75.0
FII's	5.1	5.6	5.4
MFs/Insti	10.7	10.3	10.2
Public	9.2	9.2	9.4
Total	100.0	100.0	100.0
Promoter Pledge (%)	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-16%	-24%	-17.9%
Absolute Sensex	-9%	-8%	0%
Relative Return*	-7%	-15%	-18%

\*over- or underperformance to benchmark index



Consolidated (cr)	FY25E	FY26E	FY27E
Sales	7,834	8,421	9,179
Growth (%)	0.4	7.5	9.0
EBITDA	979	1,078	1,193
EBITDA Margin(%)	12.5	12.8	13.0
PAT Adj.	639	707	802
Growth (%)	10.5	10.6	13.4
Adj.EPS	7.9	8.7	9.9
Growth (%)	10.5	10.6	13.4
P/E	29.6	26.8	23.6
P/B	3.5	3.2	2.9
EV/EBITDA	18.0	16.1	14.1
ROE (%)	12.3	12.4	12.8
D/E	0.0	0.0	0.0

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## Industrial business to drive growth

Kansai Nerolac Paints Ltd (KNPL) is the market leader in industrial paints and one of the largest decorative paint company in India.

- Weak demand and higher competition impacted KNPL's Q3FY25 performance; decorative volumes remain subdued while revenue growth was flat at Rs 1,922 cr.
- The industrial paint business was stable with high single-digit growth in Q3FY25 due to strong demand in the PV & 2W segment on account of festival demand.
- Gross margin declined by 83 bps YoY to 35.2% due to inflation in raw materials and inferior product mix, while EBITDA margin declined by 49 bps YoY to 12.2%.
- Despite higher competition, the company maintains its EBITDA margin guidance of 13 to 14% due to premiumization.
- We reduce FY25/FY26 earnings estimates by 16%/19%, respectively, due to significant competition in the industry and a muted demand environment.

## Valuation

The premium segment continued to do better while putty and distemper witnessed a de-growth. The increasing premium product mix and a double-digit growth in the industrial paint business will be the growth drivers for the coming years. With the entry of a new player into the market and a change in competition dynamics through pricing and higher brand spending, we stay cautious on the stock. **We revise our rating to HOLD with a target price of Rs. 258, based on a P/E of 26x on FY27E EPS**

## Quarterly Financials Consol.

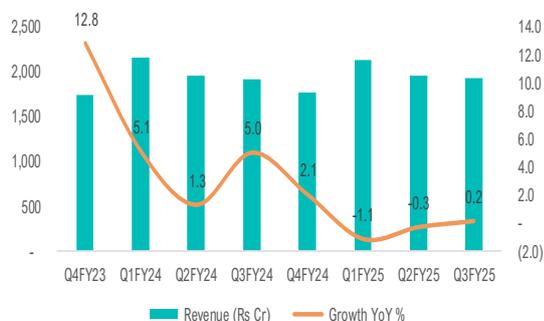
Rs.cr	Q3FY25	Q3FY24	YoY Growth (%)	Q2FY25	QoQ Growth (%)	9MFY25	9MFY24	YoY Growth (%)
Sales	1,922	1,919	0.2	1,951	-1.5	6,006	6,032	-0.4
EBITDA	235	244	-3.7	212	10.9	777	849	-8.5
Margin (%)	12.2	12.7	-49bps	10.9	137bps	12.9	14.1	-114bps
EBIT	182	196	-7.1	163	11.2	627	706	-11.3
PBT	844	208	305.2	183	361.3	1,335	1,405	-5.0
Rep. PAT	662	152	335.4	120	452.5	1,007	1,062	-5.1
Adj PAT	33	152	-78.5	120	-72.7	377	400	-5.7
EPS (Rs)	0.4	1.9	-78.5	1.5	-72.7	4.7	5.0	-5.7



## Key Concall Highlights

- The company introduced 20+ new products till Q3FY25; the new products contribute 10% of the overall decorative business.
- Premium products continued to do better while putty and distemper witnessed de-growth.
- Rural markets contribute 25-30% to the decorative business.
- The company has 35,000 to 40,000 distribution units and targets double-digit expansion in the distribution network.
- As per the management, the key drivers for the growth will be premiumization and the Paint+ business; the salience of the Paint+ product is in double digits now.
- The industrial business (PV & 2W) witnessed good growth on account of the festival season, while the auto refinish segment grew by high single-digit growth.

### Revenue



### Volume Growth



### EBITDA



### PAT



## Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E
Revenue	8,627	9,576	7,834	8,421	9,179	-9.2	-12.1
EBITDA	1,165	1,312	979	1,078	1,193	-15.9	-17.8
Margins (%)	13.5	13.7	12.5	12.8	13.0	-100bps	-90bps
Adj. PAT	764	869	639	707	802	-16.3	-18.6
EPS	9.5	10.8	7.9	8.7	9.9	-16.3	-18.6



## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue</b>	7,543	7,801	7,834	8,421	9,179
% change	18.4	3.4	0.4	7.5	9.0
<b>EBITDA</b>	818	1,092	979	1,078	1,193
% change	26.0	33.5	-10.3	10.1	10.7
Depreciation	180	190	206	229	243
<b>EBIT</b>	638	901	773	849	950
Interest	29	29	33	37	39
Other Income	26.0	91.9	130.0	150.0	180.0
<b>PBT</b>	635	1,625	870	962	1,091
% change	33.3	156.0	-46.5	10.6	13.4
Tax	166	385	230	255	289
Tax Rate (%)	26	24	27	27	27
<b>Reported PAT</b>	468	1,240	639	707	802
Adj*	0	661	0	0	0
<b>Adj PAT</b>	468	579	639	707	802
% change	36.5	23.5	10.5	10.6	13.4
No. of shares (cr)	81	81	81	81	81
<b>Adj EPS (Rs.)</b>	6	7	8	9	10
% change	36.5	23.5	10.5	10.6	13.4
DPS (Rs.)	2.1	2.1	2.1	2.1	2.1

### CASH FLOW

Y.E March (Rs. cr)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Net inc. + Deprn.</b>	649	1,430	845	936	1,045
Non-cash adj.	3	-37	-5	17	9
Changes in W.C	-236	-103	-260	-369	-253
<b>C.F. Operation</b>	408	1291	581	584	801
Capital exp.	-123	-90	-100	-100	-100
Change in inv.	-113	-200	-200	-200	-200
Other invest.CF	9	66	38	20	30
<b>C.F – Investment</b>	-227	-224	-262	-280	-270
Issue of equity	-37	0	0	0	0
Issue/repay debt	-22	15	15	15	15
Dividends paid	-55	-169	-169	-169	-169
Other finance.CF	-19	-615	-33	-37	-39
<b>C.F – Finance</b>	-133	-769	-187	-190	-193
Chg. in cash	49	298	132	114	338
Closing cash	127	425	557	670	1,009

### BALANCE SHEET

Y.E March (Rs. cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	127	425	557	670	1,009
Accounts Receivable	1,238	1,325	1,502	1,661	1,811
Inventories	1,729	1,727	1,738	1,950	2,125
Other Cur. Assets	211	224	225	242	264
Investments	502	702	902	1,102	1,302
Gross Fixed Assets	3,122	3,222	3,322	3,422	3,522
Net Fixed Assets	2,071	1,905	1,799	1,669	1,526
CWIP	113	100	100	100	100
Intangible Assets	37	40	40	40	40
Def. Tax (Net)	-	-	-	-	-
Other Assets	279	299	296	318	347
<b>Total Assets</b>	<b>6,306</b>	<b>6,747</b>	<b>7,159</b>	<b>7,752</b>	<b>8,523</b>
Current Liabilities	1,474	1,475	1,397	1,432	1,549
Provisions	-	-	-	-	-
Debt Funds	160	175	190	205	220
Other Liabilities	139	154	159	163	169
Equity Capital	81	81	81	81	81
Reserves & Surplus	4,453	4,863	5,333	5,871	6,504
Shareholder's Fund	4,534	4,943	5,414	5,952	6,585
<b>Total Liabilities</b>	<b>6,306</b>	<b>6,747</b>	<b>7,159</b>	<b>7,752</b>	<b>8,523</b>
<b>BVPS (Rs.)</b>	<b>56</b>	<b>61</b>	<b>67</b>	<b>73</b>	<b>81</b>

### RATIOS

Y.E March	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	10.8	14.0	12.5	12.8	13.0
EBIT margin (%)	8.5	11.6	9.9	10.1	10.4
Net profit mgn.(%)	6.2	7.4	8.2	8.4	8.7
ROE (%)	10.8	12.2	12.3	12.4	12.8
ROCE (%)	8.1	9.4	9.2	9.3	9.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	56.4	60.0	65.9	68.6	69.0
Inventory (days)	81.3	80.9	80.7	79.9	81.0
Payables (days)	62.5	70.5	71.6	64.7	61.9
Current ratio (x)	2.3	2.7	3.1	3.5	3.7
Quick ratio (x)	0.8	1.1	1.3	1.4	1.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.5	2.5	2.4	2.5	2.6
Total asset T.O (x)	1.3	1.2	1.1	1.1	1.1
Int. coverage ratio (x)	22.0	30.9	23.1	23.2	24.2
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	1.6	1.5	1.4	1.3	1.1
EV/EBITDA (x)	14.8	10.7	11.6	10.2	8.8
P/E (x)	40.4	32.7	29.6	26.8	23.6
P/BV (x)	4.2	3.8	3.5	3.2	2.9



## Recommendation Summary (last 3 years)



Dates	Rating	Target
25-Oct-2021	Buy	438
07-Feb-2022	Accumulate	403
19-Aug-2022	Accumulate	378
06-Dec-2022	Accumulate	333
12-May-2023	Accumulate	301
31-Aug-2023	BUY	388
23-Nov-2023	Accumulate	359
01-Apr-2024	HOLD	288
02-Aug-2024	BUY	355
07-Mar-2025	HOLD	258

### Investment rating criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
<b>Not rated/Neutral</b>			
<b>Definition:</b>			
<b>Buy:</b> Acquire at Current Market Price (CMP), with the target mentioned in the research note; <b>Accumulate:</b> Partial buying or to accumulate as CMP dips in the future; <b>Hold:</b> Hold the stock with the expected target mentioned in the note.; <b>Reduce:</b> Reduce your exposure to the stock due to limited upside.; <b>Sell:</b> Exit from the stock; <b>Not rated/Neutral:</b> The analyst has no investment opinion on the stock.			
<b>Symbols definition:</b>			
	Upgrade		No Change
			Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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