PL Capital
PRABHUDAS LILLADHER

Kansai Nerolac Paints (KNPL IN)

Rating: HOLD | CMP: Rs249 | TP: Rs278

February 7, 2025

Q3FY25 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		REDUCE	
Target Price	278		274	
Sales (Rs. m)	79,714	85,293	81,342	86,806
% Chng.	*(2.0)*	*(1.7)*		
EBITDA (Rs. m)	11,116	12,182	11,355	12,157
% Chng.	*(2.1)*	*0.2*		
EPS (Rs.)	9.5	10.3	9.6	10.3
% Chng.	*(1.2)*	*0.3*		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	73,933	74,902	79,714	85,293
EBITDA (Rs. m)	10,413	10,001	11,116	12,182
Margin (%)	*14.1*	*13.4*	*13.9*	*14.3*
PAT (Rs. m)	7,034	6,892	7,703	8,329
EPS (Rs.)	8.7	8.5	9.5	10.3
Gr. (%)	*(6.7)*	*(2.0)*	*11.8*	*8.1*
DPS (Rs.)	1.8	3.8	2.8	3.0
Yield (%)	*0.7*	*1.5*	*1.1*	*1.2*
RoE (%)	*13.7*	*11.3*	*11.2*	*11.2*
RoCE (%)	*16.8*	*13.1*	*13.0*	*13.2*
EV/Sales (x)	2.5	2.4	2.2	2.1
EV/EBITDA (x)	17.8	18.2	16.0	14.5
PE (x)	28.6	29.2	26.1	24.2
P/BV (x)	3.6	3.1	2.8	2.6

Key Data	KANE.BO | KNPL IN
52-W High / Low	Rs.337 / Rs.231
Sensex / Nifty	77,860 / 23,560
Market Cap	Rs.201bn/ $ 2,302m
Shares Outstanding	808m
3M Avg. Daily Value	Rs.124.13m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	5.36
Domestic Institution	10.23
Public & Others	9.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.5)	(16.7)	(21.6)
Relative	(4.0)	(15.0)	(27.3)

Amnish Aggarwal
amnishaggarwal@plindia.com | 91-22-66322233

Hasti Savla
hastisavla@plindia.com |

Vishwa Solanki
vishwasolanki@plindia.com | 91-22-66322244

Industrial segment leads growth

Quick Pointers:

- Strong growth in Paint+, Wood coatings, Projects and Industrial Paints enables Kansai to report 4% volume growth in 3Q25
- Birla Opus has garnered 4-5% market share
- The paint industry should grow by a high single digit next year as benefits of high disposable income, penetration and consumer awareness boost demand

KNPL delivered stable results in a tepid demand environment led by ~4% volume growth as high single digit growth in Industrial Paints and success of new initiatives like Paint+, wood coatings, waterproofing and Projects business. Competitive intensity remains intense as Birla Opus has garnered around 4-5% market share. Medium term outlook looks positive given 1) pick-up in discretionary demand post tax cuts 2) positive outlook in non-auto industrials led by strong order pipeline across Infra, Railways, Powder coatings etc. 3) growing salience of project business and 4) Share gain in auto paints which should also see recovery with expected uptick in consumer demand.

Competition seems only headwind as demand scenario improves and raw material prices remain benign. We estimate a CAGR of 6.7% in sales and 9.9% PAT over FY25-27. Slow growth and industry headwinds have resulted in significant de-rating of the stock from 40x2 year forward PE to ~25x. The downside is capped given strong base in industrial paints (45% of sales) and ~10% of market cap being in cash (Rs19bn by FY25E). We value the stock at 27xMar27 EPS (27xDec'26 earlier) and assign a target price of Rs278 (Rs274 earlier). Upgrade KNPL to HOLD from Reduce.

Revenues grew 1.5%; Volume growth ~4%: Revenues grew by 1.5% YoY to Rs18.4bn. Gross margins contracted by 88bps YoY to 35.3%. EBITDA grew by 2.9% YoY to Rs2.5bn. Margins expanded by 18bps YoY to 13.4%. Adjusted PAT grew by 7.8% YoY to Rs1.7bn.

- Exceptional Item includes 1) profit of Rs.6.65bn on account of sale of land & building at Lower Parel for an aggregate consideration of Rs.7.26bn and 2) provision of Rs. 1.86bn relating to impairment of LT investment & financial guarantee in its subsidiaries in Bangladesh & Sri Lanka.
- Decorative paints volumes increased by low single digits while Industrial Paint volumes expanded by high single digits, we estimate 4% volume growth for KNPL

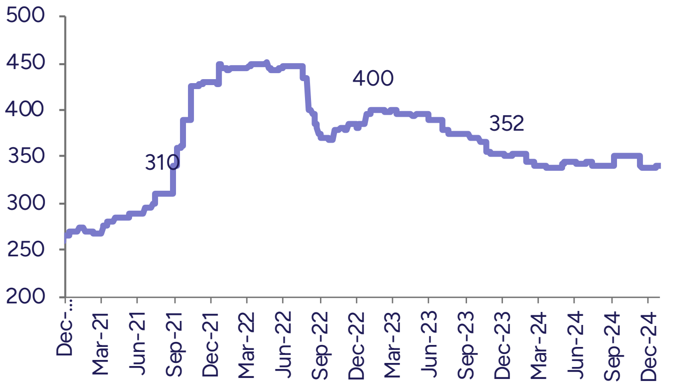
Concall Highlights: 1) Demand in decorative segment was impacted due to higher inflation leading to lower spending on discretionary products and tight liquidity, the recent reduction in taxes is expected to boost demand. 3) KNPL expects high single digit sales growth for the industry led by higher penetration and upgradation and more formalization 4) Automotive segment performed better than market backed by new use cases and launches including EV vehicles. 5) Decorative segment did better as new initiatives like Paint+ is now 10% of decorative paints while Premium wood coatings and construction chemicals now contribute to 10% of total decorative segment 6) KNPL has launched a new unique product, WOW Whites which is available in different price points 7) KNPL is looking at double digit growth in dealer network (currently at 35-45k), tinting machine penetration is ~75% 8) New competition has been aggressive in product penetration and distribution but is lacking product differentiation, it might have taken 4-5% of the market share. 9) Industrial demand is expected to be boosted by strong performance in performance coating on the back of govt's focus on infrastructure, growth in tractor segment owing to harvest & good monsoon & overall good situation for PV & 2-wheelers. 10) EBITDA margin guidance is ~13-14%.

Exhibit 1: Sales grew 1.5% YoY; GM contracts by 88bps YoY while EBITDAM increase by 18bps YoY.

Y/e March	Q3FY25	Q3FY24	YoY gr.(%)	Q2FY25	9MFY25	9MFY24	YoY gr.(%)
Total Revenue	**18,422**	**18,149**	***1.5***	**18,638**	**57,563**	**57,316**	***0.4***
Gross Profit	6,502	6,566	*(1.0)*	6,328	20,416	20,461	*(0.2)*
% of NS	*35.3*	*36.2*	*(0.9)*	*34.0*	*35.5*	*35.7*	*(0.2)*
Other Expenses	**4,033**	**4,167**	***(3.2)***	**4,178**	**12,453**	**12,024**	***3.6***
% of NS	*21.9*	*23.0*	*(1.1)*	*22.4*	*21.6*	*21.0*	*0.7*
EBITDA	**2,469**	**2,399**	***2.9***	**2,150**	**7,963**	**8,437**	***(5.6)***
Margins %	*13.4*	*13.2*	*0.2*	*11.5*	*13.8*	*14.7*	*(0.9)*
Depreciation	515	462	*11.3*	465	1,439	1,342	*7.3*
Interest	48	32	*47.5*	33	114	93	*22.7*
PBT from operations	**1,907**	**1,905**	***0.1***	**1,652**	**6,410**	**7,003**	***(8.5)***
Other Income	374	224	*67.3*	269	1,026	611	*68.1*
PBT	**2,281**	**2,129**	***7.2***	**1,921**	**7,436**	**7,613**	***(2.3)***
Tax	582	552	*5.3*	619	2,024	1,969	*2.8*
Tax rate %	*25.5*	*26.0*	*(0.5)*	*32.2*	*27.2*	*25.9*	*1.4*
Adjusted PAT	**1,699**	**1,576**	***7.8***	**1,302**	**5,412**	**5,644**	***(4.1)***

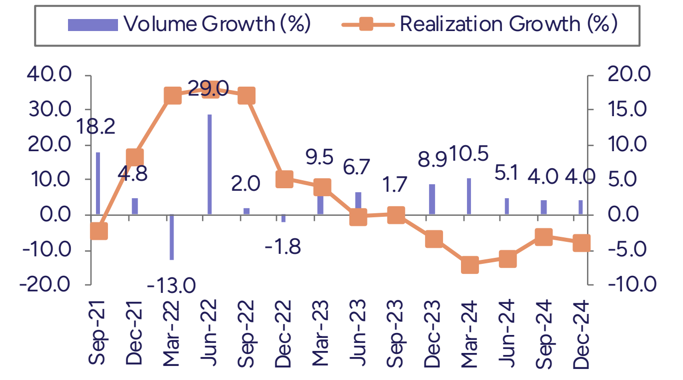
Source: Company, PL

Exhibit 2: TiO2 prices down 3.1% YoY but up 0.6% QoQ



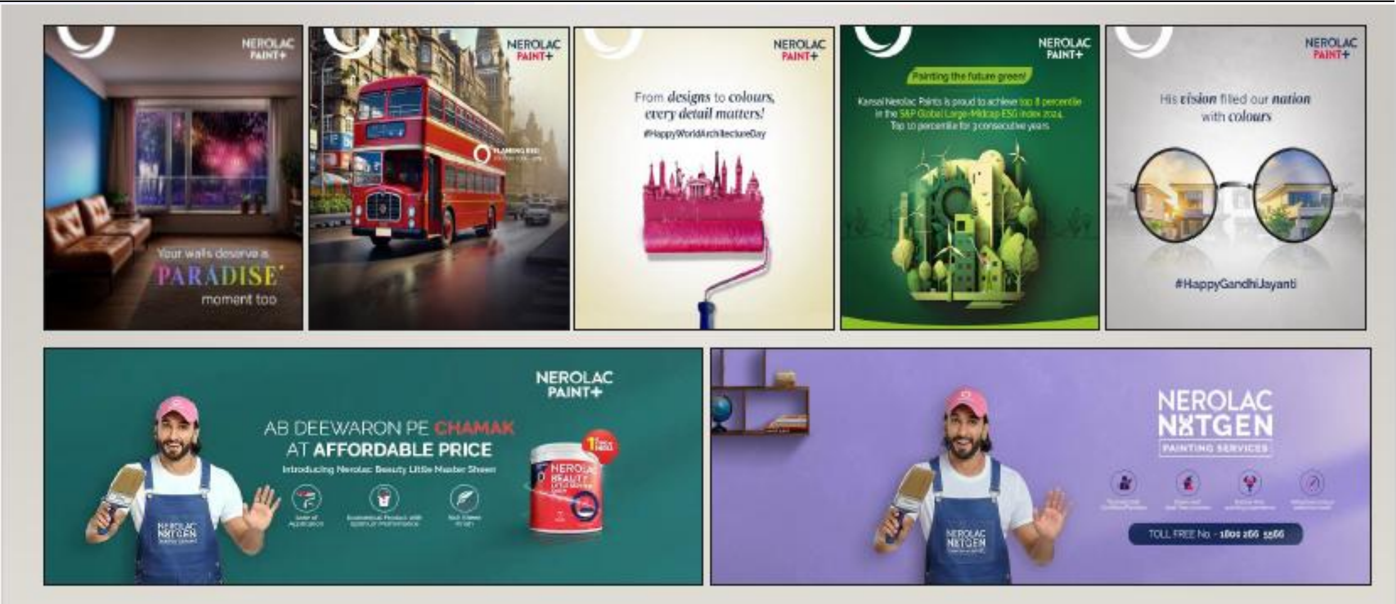
Source: Company, PL

Exhibit 3: Volumes grow by ~4% in 3QFY25



Source: Company, PL

Exhibit 4: Marketing and Media campaigns



Source: Company, PL

Exhibit 5: New products launched in decorative segment in 9M25 (new products launched in 3Q)

Source: Company, PL

Exhibit 6: Marquee projects over the years

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**73,933**	**74,902**	**79,714**	**85,293**
YoY gr. (%)	*4.4*	*1.3*	*6.4*	*7.0*
Cost of Goods Sold	47,697	48,437	51,300	54,901
Gross Profit	26,236	26,465	28,414	30,392
Margin (%)	*35.5*	*35.3*	*35.6*	*35.6*
Employee Cost	4,018	4,419	4,703	4,904
Other Expenses	6,774	6,651	6,975	7,421
EBITDA	**10,413**	**10,001**	**11,116**	**12,182**
YoY gr. (%)	*28.6*	*(4.0)*	*11.1*	*9.6*
Margin (%)	*14.1*	*13.4*	*13.9*	*14.3*
Depreciation and Amortization	1,800	1,972	2,187	2,404
EBIT	**8,613**	**8,029**	**8,929**	**9,778**
Margin (%)	*11.6*	*10.7*	*11.2*	*11.5*
Net Interest	125	149	192	249
Other Income	931	1,434	1,673	1,727
Profit Before Tax	**9,420**	**9,313**	**10,410**	**11,255**
Margin (%)	*12.7*	*12.4*	*13.1*	*13.2*
Total Tax	2,386	2,421	2,707	2,926
Effective tax rate (%)	*25.3*	*26.0*	*26.0*	*26.0*
Profit after tax	**7,034**	**6,892**	**7,703**	**8,329**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**7,034**	**6,892**	**7,703**	**8,329**
YoY gr. (%)	*40.0*	*(2.0)*	*11.8*	*8.1*
Margin (%)	*9.5*	*9.2*	*9.7*	*9.8*
Extra Ord. Income / (Exp)	4,979	5,663	-	-
Reported PAT	**12,013**	**12,555**	**7,703**	**8,329**
YoY gr. (%)	*139.1*	*4.5*	*(38.6)*	*8.1*
Margin (%)	*16.2*	*16.8*	*9.7*	*9.8*
Other Comprehensive Income	(38)	-	-	-
Total Comprehensive Income	11,975	12,555	7,703	8,329
Equity Shares O/s (m)	**808**	**808**	**808**	**808**
EPS (Rs)	**8.7**	**8.5**	**9.5**	**10.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**32,882**	**35,873**	**38,583**	**41,293**
Tangibles	32,297	35,277	37,977	40,677
Intangibles	586	596	606	616
Acc: Dep / Amortization	**14,108**	**15,648**	**17,313**	**19,098**
Tangibles	13,629	15,115	16,726	18,455
Intangibles	479	533	587	643
Net fixed assets	**18,774**	**20,225**	**21,270**	**22,195**
Tangibles	18,667	20,162	21,252	22,222
Intangibles	107	63	18	(27)
Capital Work In Progress	1,481	1,200	1,200	1,200
Goodwill	2	-	-	-
Non-Current Investments	1,563	1,579	1,596	1,615
Net Deferred tax assets	(1,171)	(1,229)	(1,291)	(1,355)
Other Non-Current Assets	4,647	5,253	5,847	6,420
Current Assets				
Investments	13,229	16,229	19,479	19,979
Inventories	16,160	17,518	18,445	19,521
Trade receivables	12,153	12,663	13,259	13,952
Cash & Bank Balance	2,296	3,491	3,863	5,105
Other Current Assets	1,317	1,873	1,993	2,132
Total Assets	**72,248**	**80,737**	**87,696**	**92,904**
Equity				
Equity Share Capital	808	808	808	808
Other Equity	55,723	65,087	70,568	76,471
Total Networth	**56,531**	**65,896**	**71,376**	**77,280**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	206	226	249	274
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	10,242	9,445	9,790	7,801
Other current liabilities	2,903	2,105	2,411	2,758
Total Equity & Liabilities	**72,248**	**80,737**	**87,696**	**92,904**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	9,236	9,313	10,410	11,255
Add. Depreciation	1,800	1,972	2,187	2,404
Add. Interest	125	149	192	249
Less Financial Other Income	931	1,434	1,673	1,727
Add. Other	4,998	5,761	216	355
Op. profit before WC changes	16,158	17,196	13,005	14,263
Net Changes-WC	(8,172)	(7,099)	(4,280)	(4,092)
Direct tax	(2,386)	(2,421)	(2,707)	(2,926)
Net cash from Op. activities	**5,600**	**7,675**	**6,018**	**7,245**
Capital expenditures	(2,977)	(3,141)	(3,232)	(3,329)
Interest / Dividend Income	-	-	-	-
Others	185	-	-	-
Net Cash from Invt. activities	**(2,792)**	**(3,141)**	**(3,232)**	**(3,329)**
Issue of share cap. / premium	121	(159)	-	-
Debt changes	-	-	-	-
Dividend paid	(1,455)	(3,031)	(2,223)	(2,425)
Interest paid	(125)	(149)	(192)	(249)
Others	-	-	-	-
Net cash from Fin. activities	**(1,458)**	**(3,339)**	**(2,415)**	**(2,675)**
Net change in cash	**1,349**	**1,195**	**372**	**1,242**
Free Cash Flow	2,622	4,534	2,787	3,916

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	8.7	8.5	9.5	10.3
CEPS	10.9	11.0	12.2	13.3
BVPS	69.9	81.5	88.3	95.6
FCF	3.2	5.6	3.4	4.8
DPS	1.8	3.8	2.8	3.0
Return Ratio(%)				
RoCE	16.8	13.1	13.0	13.2
ROIC	18.0	14.3	14.6	14.7
RoE	13.7	11.3	11.2	11.2
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	89	101	100	110
Valuation(x)				
PER	28.6	29.2	26.1	24.2
P/B	3.6	3.1	2.8	2.6
P/CEPS	10.9	11.0	12.2	13.3
EV/EBITDA	17.8	18.2	16.0	14.5
EV/Sales	2.5	2.4	2.2	2.1
Dividend Yield (%)	0.7	1.5	1.1	1.2

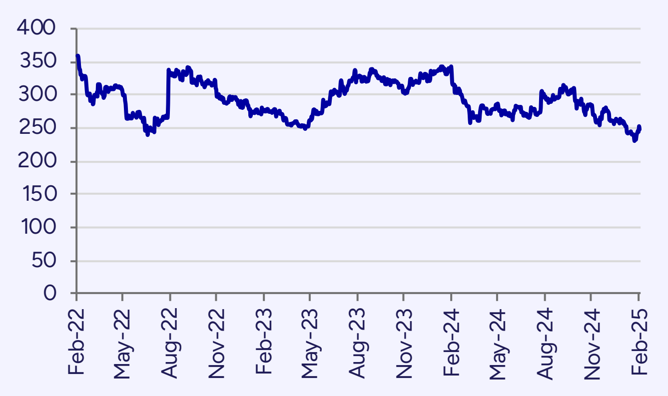
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Revenue	**16,617**	**20,504**	**18,638**	**18,422**
YoY gr. (%)	*3.5*	*(1.0)*	*1.0*	*1.5*
Raw Material Expenses	10,842	12,918	12,310	11,919
Gross Profit	5,775	7,586	6,328	6,502
Margin (%)	*34.8*	*37.0*	*34.0*	*35.3*
EBITDA	**1,791**	**3,344**	**2,150**	**2,469**
YoY gr. (%)	*17.5*	*0.2*	*(20.3)*	*2.9*
Margin (%)	*10.8*	*16.3*	*11.5*	*13.4*
Depreciation / Depletion	458	460	465	515
EBIT	**1,334**	**2,884**	**1,685**	**1,954**
Margin (%)	*8.0*	*14.1*	*9.0*	*10.6*
Net Interest	32	34	33	48
Other Income	320	384	269	374
Profit before Tax	**1,623**	**3,234**	**1,921**	**2,281**
Margin (%)	*9.8*	*15.8*	*10.3*	*12.4*
Total Tax	417	823	619	582
Effective tax rate (%)	*25.7*	*25.5*	*32.2*	*25.5*
Profit after Tax	**1,205**	**2,411**	**1,302**	**1,699**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,205**	**2,411**	**1,302**	**1,699**
YoY gr. (%)	*28.2*	*6.3*	*(27.6)*	*7.8*
Margin (%)	*7.3*	*11.8*	*7.0*	*9.2*
Extra Ord. Income / (Exp)	(190)	-	-	3,566
Reported PAT	**1,015**	**2,411**	**1,302**	**5,265**
YoY gr. (%)	*8.0*	*(67.6)*	*(27.6)*	*234.0*
Margin (%)	*6.1*	*11.8*	*7.0*	*28.6*
Other Comprehensive Income	(40)	(5)	(5)	-
Total Comprehensive Income	**976**	**2,406**	**1,297**	**5,265**
Avg. Shares O/s (m)	539	808	808	539
EPS (Rs)	**2.2**	**3.0**	**1.6**	**3.2**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-25	Reduce	274	257
2	08-Nov-24	Reduce	269	271
3	07-Oct-24	Reduce	286	292
4	31-Jul-24	Reduce	284	307
5	09-Jul-24	Reduce	266	267
6	07-May-24	Reduce	273	284
7	09-Apr-24	Reduce	288	281
8	23-Feb-24	Reduce	288	309

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,123	2,354
2	Avenue Supermarts	Hold	3,964	3,686
3	Britannia Industries	BUY	5,815	4,860
4	Colgate Palmolive	Hold	2,801	2,679
5	Dabur India	Hold	561	534
6	Emami	Accumulate	716	554
7	Hindustan Unilever	Accumulate	2,691	2,343
8	ITC	Accumulate	530	443
9	Jubilant FoodWorks	Hold	719	750
10	Kansai Nerolac Paints	Reduce	274	257
11	Marico	Accumulate	704	671
12	Metro Brands	Hold	1,177	1,199
13	Mold-tek Packaging	Accumulate	709	628
14	Nestle India	Accumulate	2,606	2,300
15	Pidilite Industries	Accumulate	3,318	2,910
16	Restaurant Brands Asia	Hold	76	72
17	Titan Company	BUY	3,833	3,491
18	Westlife Foodworld	Hold	778	718

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

ANALYST CERTIFICATION

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com

AMNISH AGGARWAL

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