

## KANSAI NEROLAC PAINTS LTD (KNPL)

Strategy continuity with focus on industrial and new businesses growth and overall margin expansion

Kansai Nerolac Paints' promoter company, Kansai Paint Co., Ltd., Japan, hosted an investors' meet to discuss their India market strategy under the new management. The management discussed their shorter-term (3 years) and longer-term (till 2030) business strategy in detail. While most of the focus areas and aspirations have seen continuity, a stronger long-term margin aspiration points to sustained performance improvement.

### Strategy continuity under new MD, no major pivots from earlier focus areas

The industrial segment will be the key growth driver, the automotive segment will see a steady trajectory driven by innovation, while in the decorative segment, the company will prioritise stability through a focus on strong regions, projects segment and premiumisation. Within decorative, focus will be more on the relatively new business segments with a higher growth headroom, namely projects, construction chemicals and wood coatings.

### Strong focus on margin expansion

KNPL targets an EBITDA margin of 14-15% over the next 3 years and ~18% by 2030, from 12.9% in 9MFY25. This will be driven by cost optimisation, global sourcing, automation and yield improvement in manufacturing and premiumisation across segments. Over the last few years, focus has been on improving the margin profile, especially that of the industrial business. This has led to industrial margins coming close to decorative margins over the year. What's new is the medium-term target of 18% margins, which gives us confidence of performance sustainability.

### Competition to stabilise this year

Management believes the rebalancing of market shares in the industry is largely done. According to them, in Q4FY25E, the sales for the new competitor have stabilised and they are not able to increase further. Their numeric dealer reach has likely peaked. Going ahead, growth will depend on brand and influencer management, which are not easy to be done in a short time.

### Performance improvement expected from H2CY25E

H2CY25E is expected to be better due to improved market conditions, positive monsoon expectations, and competition stabilising.

### Valuation and view

We expect gradual performance improvement in the coming quarters, driven by healthy performance in rural, inflation cooling off, expectations of a good monsoon and some stability on the competition front. A low crude oil price level, albeit partly offset by a volatile currency environment, will have some benefit for the industry as a whole.

We reduce our revenue estimate slightly to factor in the short term growth plan of ~9% over 3 years. We retain our margin assumptions as they reflect the 3 year aspiration to deliver 14-15% margins. Accordingly we reduce our FY26/27E EPS slightly by 1% each. **We expect Revenue/EBITDA/Adj. PAT CAGR of 9.5%/15.6%/15.0% over FY25-27E.**

**We roll over our valuation to FY27E EPS of Rs 11.2, and retain our P/E multiple at 30x, arriving at a price target of Rs 335. With an upside potential of 29.8%, we retain a 'BUY' rating on the shares of Kansai Nerolac Paints Ltd.**

Buy

Target: ₹335

#### Key Data

Bloomberg code:	KNPL IN
Target price (₹)	335
CMP (₹)	258
Upside/ (Downside)	29.8
Rating:	BUY
Shares outstanding (mn):	808
Mcap (₹ bn):	209
52-week H/L (Rs):	321/218

#### Price Performance (%)

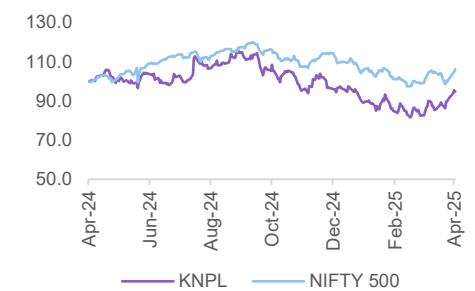
1 month	5.7
3 months	5.3
12 months	(5.0)

#### Shareholding Pattern (%)

	Sep'24	Dec'24	Mar'25
Promoter	75.0	75.0	75.0
FII's	5.6	5.4	5.3
DII's	10.3	10.2	10.1
Public/other	9.2	9.4	9.6
Pledge	-	-	-

Sources: BSE

#### KNPL performance vs. Nifty 500



Sources: NSE

YE March, Rs mn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	75,427	78,014	78,572	85,830	94,286
Growth (%)	18.4	3.4	0.7	9.2	9.9
EBITDA	8,180	10,278	9,857	11,730	13,168
EBITDA (%)	10.8	13.2	12.5	13.7	14.0
Adj. PAT	4,736	6,778	6,863	8,056	9,080
Adj. EPS	5.9	8.4	8.5	10.0	11.2
Adj. EPS Growth (%)	32.0	43.1	1.3	17.4	12.7
ROE (%)	10.9	13.3	11.4	12.0	12.5
ROCE (%)	13.9	15.7	12.4	13.6	14.5
P/E (x)	44.1	30.8	30.4	25.9	23.0

Sources: Company, ACMIIL Research

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## Con-Call Take-Aways

*The parent group expects the highest growth in the group to come in from India, leveraging the automotive, decorative and industrial businesses.*

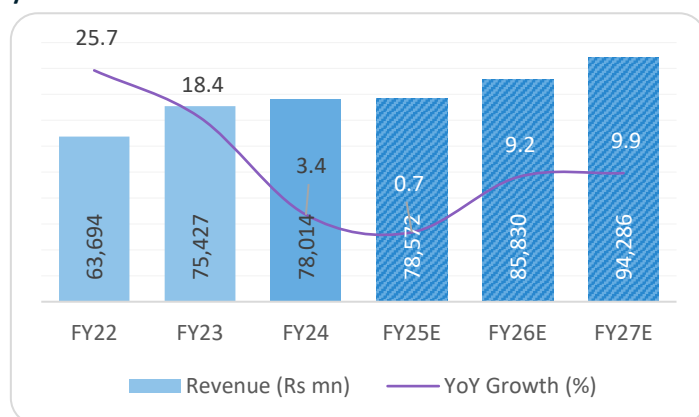
*Expectations include becoming #1 segment in the group (24.3% salience currently), maintaining market leadership in automotive, achieving leadership position in industrial and achieve growth and improved profitability in decorative business.*

*Over the next 3 years, the growth target is slightly lower at 9%, considering the soft market currently. The EBITDA margin target is 14-15%. EBITDA margin in 9MFY25 was 12.9%.*

- **India is a key piece for the parent company's growth:** The parent group expects the highest growth in the group to come from India, leveraging the automotive, decorative and industrial businesses. In the next couple of years, KNPL growth is targeted to be higher than the India coating market growth of 7.4% expected over 2025-2027. The Indian market has a massive potential in construction, industrial, infrastructure and automotive over the next few years.
- **Long-term agenda:** Till 2030, KNPL is aiming to become the #2 player in India, with revenue growth target of 10% and an EBITDA margin of 18%.
- **Short-term agenda:** Over the next 3 years, the growth target is slightly lower at 9%, considering the soft market currently. The EBITDA margin target is 14-15%. EBITDA margin in 9MFY25 was 12.9%.
- **The mandate given by the group to the Indian management:** Expectations include becoming #1 segment in the group (24.3% salience currently), maintaining market leadership in automotive, achieving leadership position in industrial and achieve growth and improved profitability in decorative business.
- **Current market position:** KNPL holds #1 position in automotive and powder coatings, and a #3 position in decorative, general industrial, high performance coatings. In auto refinishing, the company holds the #4 position, due to its late entry in the market but is catching up fast. The vision is not just volume expansion, but strategic market share gains across segments. This will be achieved through in-house innovation, differentiation which will protect margins, and targeted footprint where there is higher growth potential.
- **Growth drivers:** KNPL will be investing in fast-growing segments of industrial coatings, expanding presence in infrastructure projects. Secondly, the One-Kansai approach will help the company to leverage cross-functional alignment across the group and portfolio efficiencies across segments. Third driver will be to leverage past M&As, especially in construction chemicals, to expand presence in mason-led and repair category.
- **Growth enablers:** To enable the growth across various segments, company will focus on agile resource allocation and global purchasing, improving speed to market through digitalising sales operations and supply chain, focusing on cash conversion cycle.
- **Automotive strategy:** Changing mix in favour of SUVs is leading to larger surface to be painted. Over the last 5 years, KNPL sales across automotive sub-segments have doubled with significant increase in market share. Key strengths in this segment include access to strong global technology, strong relationships with Japanese and Indian OEMs, and enhanced R&D capabilities in India. With rising localisation requirements, Korean OEMs may also start looking at it and KNPL is ready to service them.
- **Industrial coatings strategy:** Powder/GI+HPC/ARF have grown by 40%/50%/70%, respectively in the last 3 years with similar trajectory expected to continue. KNPL will focus on expanding presence in alloy wheel and rebar under powder coatings, bridges and coil coatings in general industrial and high-performance coatings segments. Across the industrial segments, growth will be driven by premiumisation, network expansion, new technologies and new approvals.
- **Decorative paints strategy:** There is greater headroom for growth in construction chemicals (CC), projects and wood finishes, where KNPL has seen higher than market growth and market share gains in last 3 years. In projects, focus will be on expanding in new towns and expanding project-specific product range. In CC and wood finish, focus will be on expanding product range and distribution.
- **Deco-retail strategy:** KNPL will continue to focus on strengthening direct contact with influencers and consumers, new products launches focusing on functionality and differentiation. For the existing retail network, KNPL will focus on expanding painting service, different store models, increase outreach to influencers and increase salience of new products. Further expansion will be targeted through growing direct dealer network and increase numeric reach in smaller towns and districts. Focus on paint+ will continue.
- **Strategy for facing competition in decorative:** In the near term, there could be redistribution of market shares. KNPL is focusing on projects, construction chemicals and wood coatings. In retail business, it will focus on stabilising share in stronger regions of North and East India.
- **Value vs. volume equation:** In decorative, there is downtrading in the market due to pressures in urban India. But volume and value growth should match going forward as KNPL is moving more towards emulsions and premium products. For industrial, value growth will exceed volume due to premiumisation, while auto will see steady trajectory.
- **M&A strategy:** The management is interested in bolt on type M&A for the industrial segment while the priority is low for Deco and Auto segments. Any such M&A will be considering gaps in portfolio, potential synergies and proper valuations. The size however will not be too large.
- **Geographical distribution:** KNPL has a strong presence in rural, which is expected to continue to surpass growth seen in urban. For deco business, North India accounts for 50%, followed by East India at 30%. The company has taken several initiatives in South to shore up business in the region.
- **Performance improvement expected in H2CY25E:** H2CY25E is expected to be better due to improved market conditions, positive monsoon expectations, and competition stabilising. In Q4, competition sales have stabilised and they are not able to increase further. Their numeric dealer reach has likely peaked. Going ahead, growth will depend on brand and influencer management, which are not easy to do in a short time.

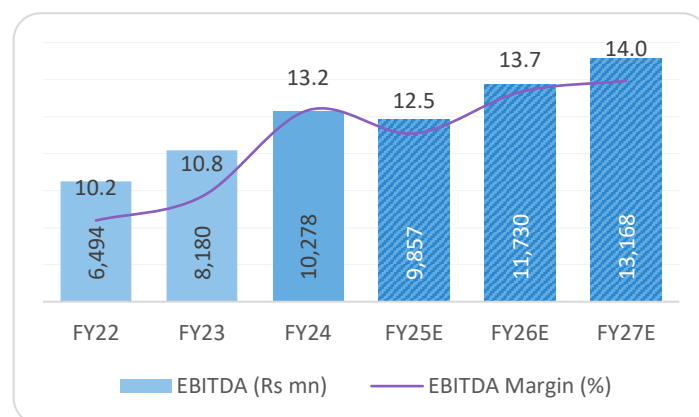
- **Industrial margins trajectory:** Historically, gross margins for deco were always higher than industrial. Over the last 2 years, industrial margins have scaled up due to KNPL exiting low-margin segments. At EBITDA level, now margins for industrial are close to the deco margins. Further improvement can be achieved by entering new high-margin sub-segments, especially in HPC and powder coatings. The group synergies will also help here, as the parent company has done a couple of acquisitions- one being a company in Europe that specialises in railways, heat-resistant coatings and non-stick coatings and another powder coatings business with presence in powder and auto. Access to some of these segments, where KNPL was not present earlier, will add significantly to the topline and bottom line going ahead.

**Exhibit 1: Management expectation for revenue is ~9% over 3 years**



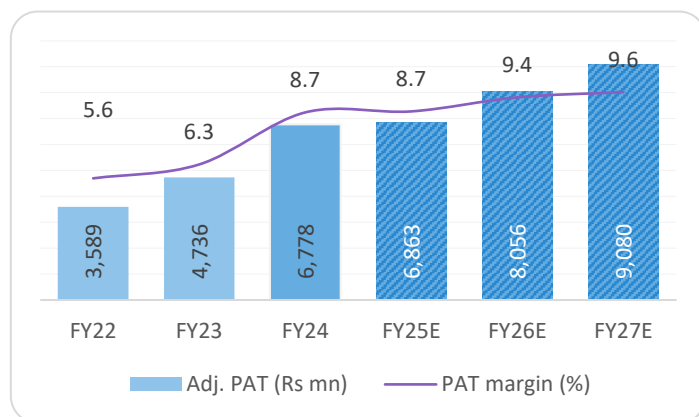
Source: Company, ACMIIL Research

**Exhibit 2: Margin guidance is of 14-15% in 3 years**



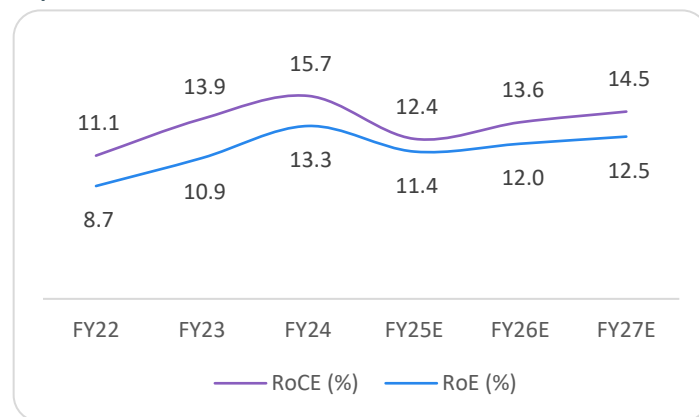
Source: Company, ACMIIL Research

**Exhibit 3: We expect Adj. PAT CAGR of 15.0% over FY25-27E**



Source: Company, ACMIIL Research

**Exhibit 4: Return ratios expected to inch up due to profitability improvement**



Source: Company, ACMIIL Research

## KANSAI NEROLAC PAINTS LTD (KNPL)

## Valuation and View

We expect gradual performance improvement in the coming quarters, driven by healthy performance in rural, inflation cooling off, expectations of a good monsoon and some stability on the competition front. A low crude oil price level, albeit partly offset by a volatile currency environment, will have some benefit for the industry as a whole.

We reduce our revenue estimate slightly to factor in the short term growth plan of ~9% over 3 years. We retain our margin assumptions as they reflect the 3 year aspiration to deliver 14-15% margins. Accordingly we reduce our FY26/27E EPS slightly by 1% each. **We expect Revenue/EBITDA/Adj. PAT CAGR of 9.5%/15.6%/15.0% over FY25-27E.**

**We roll over our valuation to FY27E EPS of Rs 11.2, and retain our P/E multiple at 30x, arriving at a price target of Rs 335. With an upside potential of 29.8%, we retain a 'BUY' rating on the shares of Kansai Nerolac Paints Ltd.**

## Exhibit 7: Valuation Summary

Valuation	
4 quarter ending FY27E EPS (Rs)	11.2
PE multiple (x)	30
<b>Target Price (Rs)</b>	<b>335</b>
CMP (Rs)	258
Upside (%)	29.8

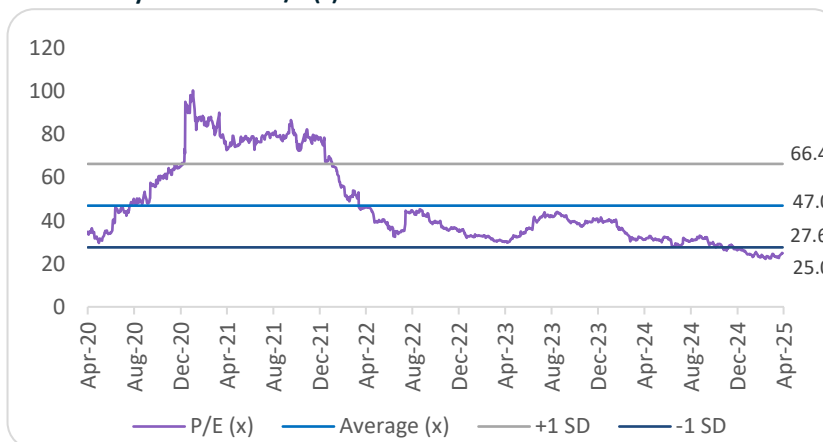
Source: Company, ACMIIL Research

## Exhibit 8: Change in Estimates

Rs. in mn	FY25E			FY26E			FY27E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	78,572	78,572	(0.0)	86,573	85,830	(0.9)	95,231	94,286	(1.0)
EBITDA	9,857	9,857	(0.0)	11,830	11,730	(0.8)	13,299	13,168	(1.0)
PAT	6,863	6,863	0.0	8,132	8,056	(0.9)	9,180	9,080	(1.1)

Source: Company, ACMIIL Research

## Exhibit 9: 1-year forward P/E (x)



Sources: Company, ACMIIL research

## KANSAI NEROLAC PAINTS LTD (KNPL)

## Financial (Consolidated)

## Income Statement

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from operations	75,427	78,014	78,572	85,830	94,286
Growth (%)	18.4	3.4	0.7	9.2	9.9
RM cost	52,643	50,441	50,802	54,669	59,866
Employee cost	3,771	4,486	4,907	5,176	5,686
Other expenses	10,834	12,810	13,006	14,256	15,566
<b>Total expenses</b>	<b>67,247</b>	<b>67,737</b>	<b>68,715</b>	<b>74,101</b>	<b>81,118</b>
<b>EBITDA</b>	<b>8,180</b>	<b>10,278</b>	<b>9,857</b>	<b>11,730</b>	<b>13,168</b>
Growth (%)	26.0	25.6	(4.1)	19.0	12.3
EBITDA margin (%)	10.8	13.2	12.5	13.7	14.0
Depreciation	1,801	1,905	2,041	2,161	2,267
<b>EBIT</b>	<b>6,379</b>	<b>8,373</b>	<b>7,816</b>	<b>9,568</b>	<b>10,900</b>
EBIT margin (%)	8.5	10.7	9.9	11.1	11.6
Other income	260	919	1,459	1,194	1,194
Interest expense	290	292	326	287	287
<b>PBT before exception items</b>	<b>6,349</b>	<b>9,000</b>	<b>8,949</b>	<b>10,476</b>	<b>11,808</b>
Exceptional items	0	6,613	6,295	0	0
<b>PBT</b>	<b>6,349</b>	<b>15,612</b>	<b>15,244</b>	<b>10,476</b>	<b>11,808</b>
Tax	1,664	3,854	3,755	2,640	2,976
Effective tax rate	26.2	24.7	24.6	25.2	25.2
Minority interest	(51)	(96)	(316)	(220)	(248)
<b>Rep. PAT</b>	<b>4,736</b>	<b>11,854</b>	<b>11,805</b>	<b>8,056</b>	<b>9,080</b>
Rep. PAT Growth (%)	32.0	150.3	(0.4)	(31.8)	12.7
Rep. PAT (%)	6.3	15.2	15.0	9.4	9.6
<b>Adj. PAT</b>	<b>4,736</b>	<b>6,778</b>	<b>6,863</b>	<b>8,056</b>	<b>9,080</b>
Adj. PAT Growth (%)	32.0	43.1	1.3	17.4	12.7
Adj. PAT (%)	6.3	8.7	8.7	9.4	9.6

Source: Company, ACMIIL Research

## Balance Sheet

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity share capital	539	808	808	808	808
Reserves & surplus	44,798	55,017	63,791	68,838	74,248
Non-controlling interest	267	160	160	160	160
<b>Net Worth</b>	<b>45,604</b>	<b>55,986</b>	<b>64,759</b>	<b>69,807</b>	<b>75,217</b>
Borrowings	47	150	150	150	150
Lease liabilities	1,000	1,254	1,254	1,254	1,254
Other non current liabilities	1,346	1,502	1,502	1,502	1,502
<b>Non current liabilities</b>	<b>2,393</b>	<b>2,906</b>	<b>2,906</b>	<b>2,906</b>	<b>2,906</b>
Short term borrowings	1,553	1,057	1,057	1,057	1,057
Lease liabilities	271	303	303	303	303
Trade payables	10,156	10,956	11,034	11,874	13,003
Other financial liabilities	697	873	873	873	873
Other current liabilities	2,390	2,017	2,017	2,017	2,017
<b>Current liabilities</b>	<b>15,067</b>	<b>15,206</b>	<b>15,284</b>	<b>16,124</b>	<b>17,253</b>
<b>Equity &amp; liabilities</b>	<b>63,064</b>	<b>74,097</b>	<b>82,949</b>	<b>88,837</b>	<b>95,375</b>
Net PPE	18,882	19,406	20,365	20,349	19,967
CWIP	1,131	1,491	1,491	1,491	1,491
ROU Assets	1,825	2,085	2,085	2,085	2,085
Investment property	1	1	1	1	1
Intangible assets	372	365	365	365	365
Financial assets	200	238	238	238	242
Other non current assets	2,621	3,021	3,021	3,021	3,021
<b>Non current assets</b>	<b>25,032</b>	<b>26,606</b>	<b>27,565</b>	<b>27,549</b>	<b>27,172</b>
Inventories	17,291	16,875	16,995	18,289	20,028
Investments	4,981	13,229	13,229	13,229	13,229
Trade receivables	12,379	13,349	13,444	14,686	16,133
Cash	1,046	1,722	9,399	12,767	16,498
Bank balances	223	877	877	877	877
Other current assets	2,110	1,439	1,439	1,439	1,439
<b>Current assets</b>	<b>38,031</b>	<b>47,490</b>	<b>55,383</b>	<b>61,287</b>	<b>68,203</b>
Assets held for sale	1	1	1	1	1
<b>Total assets</b>	<b>63,064</b>	<b>74,097</b>	<b>82,949</b>	<b>88,837</b>	<b>95,375</b>

Source: Company, ACMIIL Research

## Cash Flow

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,349	15,612	15,244	10,476	11,808
Add: Depreciation	1,801	1,905	2,041	2,161	2,267
Add: Interest	290	292	326	287	287
Other adjustments	(134)	(7,185)	(7,754)	(1,194)	(1,194)
Chg in working cap	(2,358)	827	(138)	(1,696)	(2,057)
Tax	(1,866)	(2,421)	(3,755)	(2,640)	(2,976)
<b>Operating Cash flow</b>	<b>4,083</b>	<b>9,030</b>	<b>5,965</b>	<b>7,394</b>	<b>8,135</b>
<b>Capex</b>	<b>(1,215)</b>	<b>(2,366)</b>	<b>(3,000)</b>	<b>(2,146)</b>	<b>(1,886)</b>
Free Cash Flow	2,867	6,665	2,965	5,248	6,250
Investments	(1,083)	(3,577)	6,295	(0)	(3)
Interest/ dividend income	29	45	1,459	1,194	1,194
<b>Investing Cash flow</b>	<b>(2,269)</b>	<b>(5,898)</b>	<b>4,754</b>	<b>(952)</b>	<b>(695)</b>
Equity Capital	0	0	0	0	0
Debt	(588)	(872)	0	0	0
Dividend paid	(552)	(1,455)	(3,032)	(3,008)	(3,671)
Interest paid	(186)	(161)	(326)	(287)	(287)
Others	0	0	316	220	248
<b>Financing Cash flow</b>	<b>(1,326)</b>	<b>(2,488)</b>	<b>(3,042)</b>	<b>(3,074)</b>	<b>(3,709)</b>
Net chg in cash	487	644	7,677	3,368	3,731
Opening cash position	770	1,046	1,722	9,399	12,767
Change in bank overdraft	(212)	32	0	0	0
<b>Closing cash position</b>	<b>1,046</b>	<b>1,722</b>	<b>9,399</b>	<b>12,767</b>	<b>16,498</b>

Source: Company, ACMIIL Research

## Key Ratios

YE March (Rs)	FY23	FY24	FY25E	FY26E	FY27E
Adj. EPS	5.9	8.4	8.5	10.0	11.2
CEPS	5.1	11.2	7.4	9.1	10.1
BVPS	56.4	69.3	80.1	86.4	93.0
DPS declared	2.7	3.8	3.7	4.5	5.1
<b>Valuations (x)</b>					
P/E	44.1	30.8	30.4	25.9	23.0
P/BV	4.6	3.7	3.2	3.0	2.8
EV/Sales	2.6	2.5	2.5	2.3	2.1
EV/EBITDA	23.9	19.0	19.9	16.7	14.9
Dividend Yield (%)	0.4	1.0	1.5	1.4	1.8
<b>Return Ratio (%)</b>					
RoCE	13.9	15.7	12.4	13.6	14.5
RoE	10.9	13.3	11.4	12.0	12.5
<b>Gearing Ratio (x)</b>					
Net Debt/Equity	0.0x	0.0x	0.1x	0.0x	0.0x
Net Debt/EBITDA	0.1x	0.1x	0.2x	0.1x	0.0x
Working Cap Cycle (days)	109	105	105	105	105
<b>Profitability (%)</b>					
EBITDA Margin	10.8	13.2	12.5	13.7	14.0
EBIT Margin	8.5	10.7	9.9	11.1	11.6
Adj. PAT Margin	6.3	8.7	8.7	9.4	9.6

Source: Company, ACMIIL Research

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
SELL	$< -10\%$
HOLD	$> -10\%$ to $15\%$

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