

Kansai Nerolac Paints Ltd

Muted Quarter; Negatives Largely Priced In

KNPL Q1 Result was a marginal miss to consensus estimates. Overall growth print was ahead of market leader (1.4%YoY for KNPL vs -0.3%YoY for APNT) on account higher saliency of faster growing industrial coating. In domestic decorative coating, the growth was below market leader indicating market share loss. The growth in the quarter was impacted by one-offs like unseasonal rains and border disturbances in north where company is over-indexed. Going forward, the company remains optimistic on demand revival in decorative due to upcoming festive season as well as TAM expansion, new tech based product launches and premiumisation to drive growth in industrial coating. Margins have seen sequential improvement; however on YoY basis have seen contraction. The management maintained its EBITDA Margin guidance for FY26 at 13-14%. The company believes anti-dumping duty on TIO2, forex volatility (~30-35% RM are imported) and high discounting will limit margin expansion for the company.

Market Share Loss In Decorative; Industrial Performance Healthy

Consolidated revenue grew by 1.4%YoY. In domestic decorative business, the company reported flat volumes and low single digit value decline. As compared to the market leader, the company has under-performed on volume (flat for KNPL vs 3.9% YoY growth) and value front (CBL Est:-2% for KNPL vs -1.2% for market leader) thereby resulting in some market share. The company highlighted domestic decorative performance was impacted due to (i) early monsoon and (ii) border disruption in north where company is over-indexed. The June exit run rate has continued in July as well. However, the company remains optimistic on decorative demand going ahead due to festive season. Industrial coating reported high single digit growth. The management expects mid-single digit growth in auto and high single digit growth in non-auto. The subsidiary performance has pulled down topline growth (standalone 1.8% Yoy growth vs consol growth of 1.4%YoY) due to weak performance in Bangladesh and Sri Lanka.

Margins See Moderation

Gross margins contracted by 74bps YoY to 36.1%. Higher employee costs (+35bps YoY as % of sales) and other expenses (+34bps YoY as % of sales) resulting in EBITDA Margin contraction to be higher than gross margin contraction. EBITDA Margins contracted by 143bps YoY to 14%. EBITDA declined by 8%YoY while PBT declined by 4.1%YoY due to higher other income (+55.5% YoY). The company maintains its EBITDA Margins guidance of 13-14% for FY26.

Underperformance vs Peers; Valuation Comfort To Limit Downside

KNPL has underperformed in terms of topline/volume and margin performance as compared to other paint peers which has resulted in sharp de-rating for the stock. We believe, on industrial coating the company has seen resilient performance and given competitive intensity in the segment is lower and KNPL is over-indexed in this segment, the current valuation largely capture in the muted performance in decorative coating. We assign Add rating to the stock with target price of Rs270 based on Sept'27 EPS of Rs10.1 with target multiple of 27x.

Financial and valuation summary

YE Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenues	78,014	78,230	81,619	86,766	92,742
EBITDA	10,278	9,423	10,486	11,242	12,128
EBITDA margin (%)	13.2	12.0	12.8	13.0	13.1
Adj. Net profit	5,146	4,798	7,315	7,855	8,464
Adj. EPS (Rs)	6.4	5.9	9.0	9.7	10.5
EPS growth (%)	9.8	(6.8)	52.5	7.4	7.7
PE (x)	38.0	40.8	26.8	24.9	23.1
EV/EBITDA (x)	19.0	20.6	18.3	16.6	15.0
PBV (x)	5.2	3.0	2.8	2.6	2.4
RoE (%)	13.7	7.5	10.6	10.5	10.5
RoCE (%)	12.2	9.5	11.2	11.1	11.1

Source: Company, Centrum Broking

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Result Update

India I Consumer

05 August, 2025

ADD

Price: Rs242

Target Price: Rs270

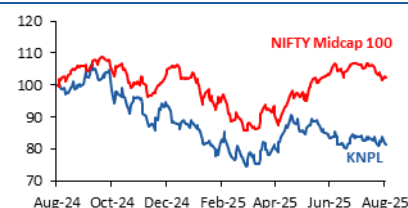
Forecast return: 12%

Institutional Research

Market Data

Bloomberg:	KNPL IN
52 week H/L:	319/217
Market cap:	Rs195.8bn
Shares Outstanding:	808.5mn
Free float:	21.4%
Avg. daily vol. 3mth:	2,06,975
Source: Bloomberg	

KNPL relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Jun-25	Mar-25	Dec-24	Sep-24
Promoter	75.0	75.0	75.0	75.0
FIIIs	5.4	5.3	5.4	5.6
DIIIs	10.2	10.1	10.2	10.3
Public/other	9.4	29.9	9.4	9.1

Source: BSE



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Consumer

Thesis Snapshot

Centrum vs consensus

YE Mar (Rs bn)	Centrum FY26E	Consensus FY26E	Variance (%)	Centrum FY27E	Consensus FY27E	Variance (%)
Revenue	81,619	84284	-3.2%	86,766	91539	-5.2%
EBITDA	10,486	10541	-0.5%	11,242	11684	-3.8%
EBITDA Margin (%)	12.8	12.5		13.0	12.8	
Adj PAT	7,315	7211	1.4%	7,855	8109	-3.1%

Source: Bloomberg, Centrum Broking

Kansai Nerolac versus NIFTY Midcap 100

	1m	6m	1 year
KNPL in equity	(3.2)	(0.7)	(18.2)
Nifty Midcap 100	(4.1)	5.6	2.4

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY26E	FY27E
Revenue Growth	4.3	6.3
Gross Margin (%)	35.6	35.8
EBITDA Margin (%)	12.8	13.0

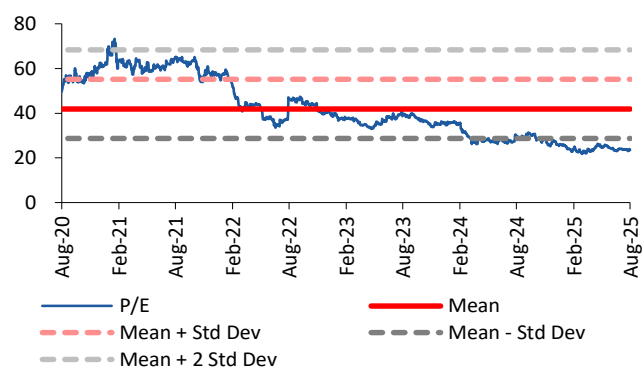
Source: Centrum Broking

Valuations

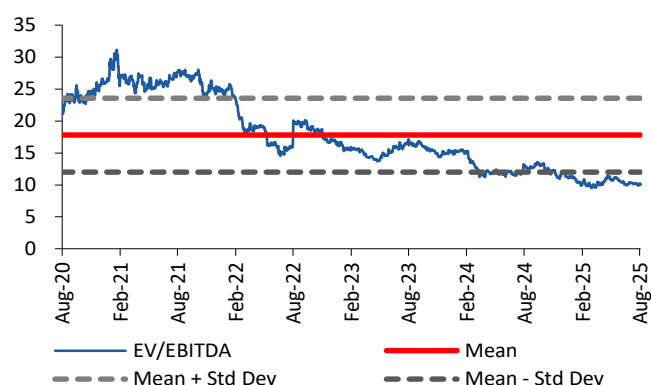
We assign Add rating to the stock with target price of Rs270 based on Sept'27 EPS of Rs10.1 with target multiple of 27x.

Valuations	Rs/share
Sept'27 EPS	Rs10.1
Target PE Multiple	27x
Target price	Rs270

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Exhibit 1: Consolidated Q1FY26 Result Table

Consolidated (Rs mn)	Q1FY25	Q1FY25	% Ch YoY	Q4FY25	% Ch QoQ
Total Income	21,620	21,331	1.4	18,167	19.0
Cost of revenues	13,821	13,477	2.5	11,886	16.3
Gross profit	7,800	7,854	(0.7)	6,281	24.2
Employee costs	1,338	1,245	7.4	1,315	1.8
Other operating expenses	3,430	3,312	3.6	3,309	3.7
EBITDA	3,032	3,296	(8.0)	1,657	82.9
Depreciation & Amortization	529	481	10.0	516	2.6
Interest	74	72	2.1	77	(4.3)
Other Income	526	338	55.5	371	41.8
Exceptional Items	--	--	--	--	--
PBT	2,955	3,081	(4.1)	1,435	105.9
Income taxes	799	832	(4.0)	411	94.4
Income from JV/Subsidiaries	--	--	--	--	--
Reported PAT	2,156	2,249	(4.1)	1,024	110.5
<i>Gross margin (%)</i>	<i>36.1</i>	<i>36.8</i>	<i>-74 bps</i>	<i>34.6</i>	<i>150 bps</i>
<i>EBITDA margin (%)</i>	<i>14.0</i>	<i>15.5</i>	<i>-143 bps</i>	<i>9.1</i>	<i>490 bps</i>

Source: Centrum Broking, Company Data

Exhibit 2: Standalone Q1FY26 Result Table

Standalone (Rs mn)	Q1FY25	Q1FY25	% Ch YoY	Q4FY25	% Ch QoQ
Total Income	20,874	20,504	1.8	17,404	19.9
Cost of revenues	13,336	12,918	3.2	11,379	17.2
Gross profit	7,538	7,586	(0.6)	6,025	25.1
Employee costs	1,200	1,121	7.0	1,165	3.0
Other operating expenses	3,218	3,121	3.1	3,082	4.4
EBITDA	3,120	3,344	(6.7)	1,778	75.4
Depreciation & Amortization	512	460	11.4	497	3.0
Interest	36	34	6.5	37	(2.2)
Other Income	529	384	38.0	394	34.2
Exceptional items	--	--	--	--	--
PBT	3,101	3,234	(4.1)	1,638	89.3
Income taxes	792	823	(3.7)	403	96.4
Reported net profit	2,309	2,411	(4.3)	1,235	86.9
Gross margin (%)	36.1	37.0	-89 bps	34.6	149 bps
EBITDA margin (%)	14.9	16.3	-136 bps	10.2	473 bps

Source: Centrum Broking, Company Data

Key Highlights From Management Concall

Domestic Decorative Coating:

- The company reported flat volume growth and low single digit revenue decline during the quarter. The gap between volume and value growth has narrowed.
- The performance was impacted in the quarter due to early monsoon and border disturbances in north. July has fared similar to June exit however, management is optimistic on demand outlook due to the upcoming festive season.
- Demand in rural markets have remained stable while urban demand has seen slight uptick.
- Paint+ products continue to gain traction and its saliency has reached ~12% of revenue.
- The direct dealer network grew by mid single digit with a footprint of more than 30k. The sub-dealer network has increased by double digit.
- The company added ~400 Nerolac nextgen shopee and shop in shop network.
- Projects business under-performed vs company expectations due to early monsoon.
- The company has seen strong performance in new businesses of construction chemicals, water proofing and premium wood finishes.
- The contribution of new products stands at >10% of decorative coating.
- Services business contributes ~5% to decorative coating.
- The management anticipates performance of decorative coating in Q2 to be healthy due to early Diwali therefore Aug and Sept will see decent growth.
- North and East performance has been healthy. West has also seen improved performance from May onwards. South continues to be a challenging region for the company due to higher competitive intensity.

Automotive Coating:

- The growth in automotive coating has been sluggish. However, the company has grown ahead of market growth rates due to (i) premiumisation and (ii) gaining new accounts.
- The company has entered newer segments of auto which will increase TAM.
- The auto refinish has seen double digit growth during the quarter.
- The demand for 2W and passenger vehicle is expected to be stable or subdued. The tractor segment is expected to perform well due to good monsoon and enhanced agriculture activity.

Non-automotive coating:

- Powder coating performance was slightly muted as appliances saw weak performance in second half of the quarter.
- The management expects high single digit to close double digit growth for the segment.
- The company plans on increasing its presence and has several white spaces which it can cater to. The segment which company wants to cater to requires global approval and has high entry barriers as well as better realisations.

Competitive Intensity:

- The discounting is in line with industry average and company is not shelling extra discounting.
- As per company feedback, the 10% extra grammage by new competition has been withdrawn in some geographies.

International business:

- Bangladesh had a soft performance and has been the biggest drag in terms of profitability.
- Nepal has seen healthy performance in the current quarter as well as last three years.
- Sri Lanka continues to remain challenging and not delivering as per expectations.

Margins & Costs

- The company maintains its EBITDA margin guidance for FY26 at 13-14%.
- Around 30-35% of company's RM basket is imported there volatility in tariffs as well as foreign exchange is a key monitoable.
- The impact of anti-dumping duty on Chinese imported TIO2 will be ~1-1.3% inflation.
- Margins have moderated in the quarter due to reduced operating leverage due to north impact and better mix in decorative in base quarter.

P&L					
YE Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenues	78,014	78,230	81,619	86,766	92,742
Operating Expense	67,737	68,807	71,133	75,524	80,613
Employee cost	4,486	5,019	4,548	5,002	5,503
Others	12,810	13,094	14,038	14,836	15,591
EBITDA	10,278	9,423	10,486	11,242	12,128
Depreciation & Amortisation	1,905	2,017	2,220	2,330	2,485
EBIT	8,373	7,406	8,265	8,911	9,644
Interest expenses	292	313	328	345	362
Other income	919	1,392	1,809	1,899	1,994
PBT	9,000	8,485	9,746	10,466	11,277
Taxes	3,854	3,687	2,431	2,611	2,813
Effective tax rate (%)	42.8	43.5	24.9	24.9	24.9
PAT	5,146	4,798	7,315	7,855	8,464
Minority/Associates	0	0	0	0	0
Recurring PAT	5,146	4,798	7,315	7,855	8,464
Extraordinary items	6,613	6,295	0	0	0
Reported PAT	11,759	11,093	7,315	7,855	8,464
Ratios					
YE Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (%)					
Revenue	3.4	0.3	4.3	6.3	6.9
EBITDA	25.6	(8.3)	11.3	7.2	7.9
Adj. EPS	9.8	(6.8)	52.5	7.4	7.7
Margins (%)					
Gross	35.3	35.2	35.6	35.8	35.8
EBITDA	13.2	12.0	12.8	13.0	13.1
EBIT	10.7	9.5	10.1	10.3	10.4
Adjusted PAT	6.6	6.1	9.0	9.1	9.1
Returns (%)					
ROE	13.7	7.5	10.6	10.5	10.5
ROCE	12.2	9.5	11.2	11.1	11.1
ROIC	12.2	6.4	9.2	9.7	10.4
Turnover (days)					
Gross block turnover ratio (x)	2.9	2.1	2.0	2.0	2.1
Debtors	47	50	61	60	60
Inventory	99	96	128	136	136
Creditors	58	61	84	89	89
Net working capital	81	188	199	211	223
Solvency (x)					
Net debt-equity	0.0	0.0	(0.1)	(0.1)	(0.2)
Interest coverage ratio	35.2	30.2	32.0	32.6	33.5
Net debt/EBITDA	0.0	(0.2)	(0.4)	(0.8)	(1.1)
Per share (Rs)					
Adjusted EPS	6.4	5.9	9.0	9.7	10.5
BVPS	46.5	79.5	85.5	92.2	99.7
CEPS	8.7	8.4	11.8	12.6	13.5
DPS	1.7	1.8	3.7	3.0	3.0
Dividend payout (%)	12.0	13.1	41.4	30.9	28.7
Valuation (x)					
P/E	38.0	40.8	26.8	24.9	23.1
P/BV	5.2	3.0	2.8	2.6	2.4
EV/EBITDA	19.0	20.6	18.3	16.6	15.0
Dividend yield (%)	0.7	0.7	1.5	1.2	1.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity share capital	539	808	808	808	808
Reserves & surplus	37,064	63,423	68,313	73,743	79,782
Shareholders fund	37,603	64,232	69,121	74,552	80,590
Minority Interest	217	(187)	(187)	(187)	(187)
Total debt	1,733	1,178	1,178	1,178	1,178
Non Current Liabilities	562	1,455	1,455	1,455	1,455
Def tax liab. (net)	1,081	1,645	1,645	1,645	1,645
Total liabilities	41,195	68,322	73,212	78,642	84,681
Gross block	26,624	37,331	40,367	42,367	44,367
Less: acc. Depreciation	9,639	17,259	19,480	21,810	24,294
Net block	16,985	20,072	20,888	20,558	20,073
Capital WIP	1,691	2,214	2,214	2,214	2,214
Net fixed assets	20,755	24,725	25,541	25,211	24,726
Non Current Assets	3,036	3,174	3,174	3,174	3,174
Investments	9	38	38	38	38
Inventories	10,084	16,651	20,125	21,394	22,868
Sundry debtors	7,870	13,567	13,864	14,738	15,753
Cash & Cash Equivalents	1,920	2,901	5,445	9,867	14,841
Loans & advances	151	710	710	710	710
Other current assets	5,012	20,405	20,405	20,405	20,405
Trade payables	5,954	11,008	13,250	14,054	14,994
Other current liab.	1,502	2,305	2,305	2,305	2,305
Provisions	185	536	536	536	536
Net current assets	17,395	40,386	44,459	50,220	56,743
Total assets	41,195	68,322	73,212	78,642	84,681

Cashflow					
YE Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Profit Before Tax	15,612	14,780	9,746	10,466	11,277
Depreciation & Amortisation	1,905	2,017	2,220	2,330	2,485
Net Interest	292	313	328	345	362
Net Change – WC	827	(406)	(1,530)	(1,338)	(1,549)
Direct taxes	(2,421)	(2,576)	(2,431)	(2,611)	(2,813)
Net cash from operations	9,030	6,724	8,334	9,192	9,761
Capital expenditure	(2,370)	(3,263)	(3,036)	(2,000)	(2,000)
Acquisitions, net	0	0	0	0	0
Investments	(3,573)	(523)	0	0	0
Others	18	18	18	18	18
Net cash from investing	(5,925)	(3,768)	(3,019)	(1,982)	(1,982)
FCF	6,660	3,461	5,298	7,192	7,761
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(575)	(120)	0	0	0
Dividend paid	(1,455)	(3,031)	(2,425)	(2,425)	(2,425)
Interest paid	0	0	0	0	0
Others	(458)	2,428	(328)	(345)	(362)
Net cash from financing	(2,488)	(724)	(2,753)	(2,770)	(2,787)
Net change in Cash	617	2,231	2,562	4,440	4,992

Source: Company, Centrum Broking

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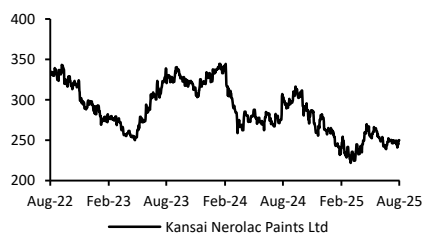
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Add – The stock is expected to return 5-15%.

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Kansai Nerolac Paints Ltd



Source: Bloomberg

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