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INDIA



## Akzo Nobel India

BUY

Maintained

Improving trajectory; that's important in a  
turnaround

Rs2,219

Q1FY22 result review  
and earnings revisionConsumer Staples &  
Discretionary

Target price: Rs2,800

## Earnings revision

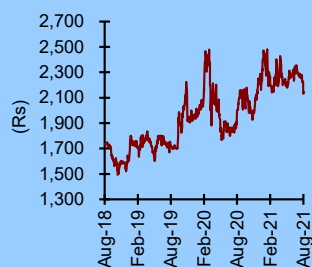
| (%)    | FY22E | FY23E |
|--------|-------|-------|
| Sales  | ↑ 2.3 | ↑ 2.3 |
| EBITDA | ↑ 3.2 | ↑ 2.3 |
| PAT    | ↑ 3.5 | ↑ 2.6 |

## Shareholding pattern

|                           | Dec '20 | Mar '21 | Jun '21 |
|---------------------------|---------|---------|---------|
| Promoters                 | 74.8    | 74.8    | 74.8    |
| Institutional investors   | 12.2    | 12.4    | 12.3    |
| MFs and others            | 5.8     | 5.8     | 5.8     |
| Banks, FI's, Insurance co | 5.5     | 5.2     | 5.0     |
| FII's                     | 0.9     | 1.4     | 1.5     |
| Others                    | 13.0    | 12.8    | 12.9    |

Source: BSE

## Price chart



Akzo has continued to report improving volume/revenue trajectory with every passing quarter which underlines the thesis that the turnaround is truly on track. We believe LFL growth in Q1FY22 was one of the highest among peers (adjusting for (relatively) low value-add putty, primer et al.). Just to recap, 2-yr CAGR revenue growth in 1QFY22: Asian +4.3%, Indigo +4%, Berger +2.4%, Kansai -4.6%, Akzo -6.7%. Our structural positive stance on Akzo is intact, as (1) it has strengthened product portfolio via multiple differentiated launches in past 2 years. It has introduced India's first bio-based premium interior emulsion in Aug'21, (2) expanded distribution network to 19,000+ outlets and 14,000 tinting machines and (3) also focused on brand building initiatives such as Dulux Assurance. Stock trades at 30.6x FY23E (50% discount to APNT), providing margin of safety. BUY; TP Rs2,800.

With multiple tailwinds such as (1) revival in economy and industrial production, (2) higher production of consumer goods post PLI and (3) likely success of new products in emulsions and waterproofing, we believe Akzo is on track to achieve higher growth than its own history. We model revenue CAGR of 16.7% over FY21-23 vs 8.9% over FY10-21. We reckon, there will be better utilization of investments in trade (distribution, tinting machines etc) too ahead leading to higher asset turns and RoI. We stay believers.

- **Q1FY22 results:** Akzo reported revenue growth of 142.3% YoY (2 year CAGR: -6.7%). EBITDA increased to Rs905mn in Q1FY22 from loss of Rs126mn in Q1FY20. PAT was up to Rs590mn from loss of Rs203mn YoY. Gross margin declined 240bps due to higher input prices partially offset by judicious price hikes, better revenue mix and cost saving initiatives.
- **Segment-wise performance:** While May'21 was impacted by lockdown, Akzo reported strong growth in Apr'21 and June'21. Segments like marine, industrial and powder coating performed well whereas retail and auto refinishing were relatively more impacted. Decorative segment did well with recovery in metros and tier-1 cities (key markets for Akzo). Projects segments is also performing well. We believe North and East regions are outperforming West and South India.
- **Turnaround on track:** In-spite of headwinds in FY21 and Q1FY22, Akzo has strengthened its competitive advantages with (1) presence in 19,000+ outlets and 14,000 tinting machines, (2) it has introduced and launched successful products in economy emulsions and waterproofing and (3) has also continued to introduce differentiated products every quarter. It introduced Interpon coatings (primers) in Q1FY21, Dulux Promise SmartChoice in the economy emulsion segment and also relaunched Dulux SuperClean, premium interior emulsion in Q2FY21 and Dulux professional Weathershield Anti-carb in Q3FY21. It also introduced Dulux Assurance in Q4FY21 which promises consumers about colour, coverage and uniform finish.

## Research Analysts:

## Manoj Menon

manoj.menon@icicisecurities.com  
+91 22 6637 7209

## Aniruddha Joshi

aniruddha.joshi@icicisecurities.com  
+91 22 2277 7249

## Aniket Sethi

aniket.sethi@icicisecurities.com  
+91 22 2277 7632

## Karan Bhuwania

karan.bhuwania@icicisecurities.com  
+91 22 6637 7351

|                         |                   |                     |        |        |        |        |
|-------------------------|-------------------|---------------------|--------|--------|--------|--------|
| Market Cap              | Rs101bn/US\$1.4bn | Year to March       | FY20   | FY21P  | FY22E  | FY23E  |
| Reuters/Bloomberg       | AKZO.BO/AKZO IN   | Net Revenue (Rs mn) | 26,618 | 24,214 | 29,181 | 32,975 |
| Shares Outstanding (mn) | 45.5              | Net Profit (Rs mn)  | 2,335  | 2,051  | 2,847  | 3,296  |
| 52-week Range (Rs)      | 2481/1767         | Dil. EPS (Rs)       | 53.3   | 45.6   | 62.5   | 72.4   |
| Free Float (%)          | 25.2              | % Chg YoY           | 15.3   | (14.4) | 37.1   | 15.8   |
| FII (%)                 | 1.5               | P/E (x)             | 41.6   | 48.6   | 35.5   | 30.6   |
| Daily Volume (US\$'000) | 650               | CEPS (Rs)           | 70.6   | 62.2   | 79.4   | 90.8   |
| Absolute Return 3m (%)  | 3.2               | EV/EBITDA (x)       | 25.5   | 27.9   | 22.9   | 19.5   |
| Absolute Return 12m (%) | 13.9              | Dividend Yield (%)  | 0.6    | 2.3    | 2.3    | 2.3    |
| Sensex Return 3m (%)    | 14.6              | RoCE (%)            | 19.9   | 15.4   | 20.9   | 23.9   |
| Sensex Return 12m (%)   | 46.2              | RoE (%)             | 20.4   | 16.4   | 21.6   | 23.6   |

Please refer to important disclosures at the end of this report

- ▶ **Launch of bio-based super-premium interior emulsion:** Akzo introduced India's first USDA certified Bio-based paint under the brand equity of 'Dulux Better Living Air Clean Biobased'. It is super premium interior emulsion with 26% bio-based content and helps in neutralizing indoor air pollutants.
- ▶ **Likely beneficiary of large capex and infrastructure over next 2-3 years:** The government capex is expected to increase sharply as per budgetary provisions. There will also be higher investments in capex in multiple industries such automotive, consumer durables post PLI announcements. As Akzo is preferred supplier of paints & coatings for multiple MNCs, it is likely to benefit in medium term. It will also benefit with improving maturity of market to accept high end products.
- ▶ **Reiterate BUY:** We stay believers. Retain BUY with DCF-based TP of Rs2,800. Akzo is trading at lowest valuation (30.6x FY23E) among its peers in paint sector providing significant margin of safety, in our view. Key risks are execution-linked challenges and demand deceleration.

**Table 1: Launch of Dulux Better Living Air Clean Biobased**



Source: Company data, I-Sec research

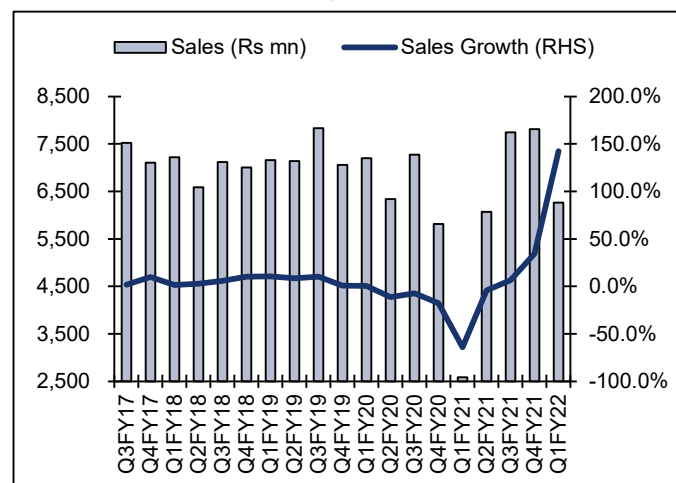
**Table 2: Q1FY22 financial performance***(Rs mn, year ending March 31)*

|                          | Q1FY22       | Q1FY21       | % YoY            | Q4FY21       | % QoQ          |
|--------------------------|--------------|--------------|------------------|--------------|----------------|
| <b>Net revenues</b>      | <b>6,264</b> | <b>2,585</b> | <b>142.3</b>     | <b>7,814</b> | <b>(19.8)</b>  |
| Raw materials            | 3,608        | 1,427        | 152.9            | 4,467        | (19.2)         |
| % of sales               | 57.6%        | 55.2%        | 241 bps          | 57.2%        | 43 bps         |
| Employee costs           | 601          | 600          | 0.1              | 652          | (7.9)          |
| % of sales               | 9.6%         | 23.2%        | -1363 bps        | 8.3%         | 124 bps        |
| Other expenditure        | 1,150        | 684          | 68.0             | 1,556        | (26.1)         |
| % of sales               | 18.4%        | 26.5%        | -811 bps         | 19.9%        | -156 bps       |
| <b>Total expenditure</b> | <b>5,358</b> | <b>2,711</b> | <b>97.6</b>      | <b>6,676</b> | <b>(19.7)</b>  |
| <b>EBITDA</b>            | <b>905</b>   | <b>(126)</b> | <b>(818.0)</b>   | <b>1,138</b> | <b>(20.4)</b>  |
| <i>EBITDA margin (%)</i> | <i>14.5%</i> | <i>-4.9%</i> | <i>1933 bps</i>  | <i>14.6%</i> | <i>-11 bps</i> |
| Other income             | 97           | 60           | 62.2             | 58           | 69.2           |
| <b>PBDIT</b>             | <b>1,003</b> | <b>(66)</b>  | <b>(1,616.9)</b> | <b>1,195</b> | <b>(16.1)</b>  |
| Depreciation             | 180          | 175          | 2.7              | 189          | (4.9)          |
| <b>PBIT</b>              | <b>823</b>   | <b>(241)</b> | <b>(441.1)</b>   | <b>1,006</b> | <b>(18.2)</b>  |
| Interest                 | 27           | 30           | (8.8)            | 15           | 85.5           |
| <b>PBT</b>               | <b>796</b>   | <b>(271)</b> | <b>(394.0)</b>   | <b>992</b>   | <b>(19.7)</b>  |
| Tax                      | 206          | (68)         | (402.2)          | 249          | (17.4)         |
| <i>% of PBT</i>          | <i>25.9%</i> | <i>25.2%</i> | <i>70 bps</i>    | <i>25.1%</i> | <i>74 bps</i>  |
| <b>PAT</b>               | <b>590</b>   | <b>(203)</b> | <b>(391.3)</b>   | <b>743</b>   | <b>(20.5)</b>  |
| Extraordinary items      | 169          | (42)         |                  | 16           |                |
| <b>Reported PAT</b>      | <b>759</b>   | <b>(244)</b> | <b>(410.7)</b>   | <b>758</b>   | <b>0.1</b>     |

Source: Company data, I-Sec research

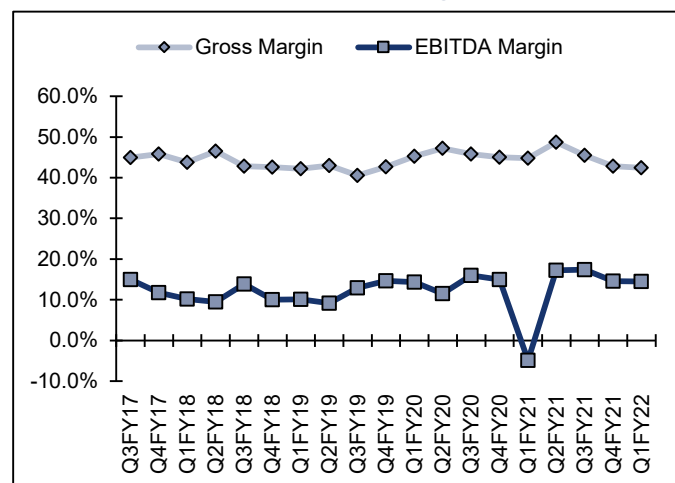
## Quarterly operational highlights

### Chart 1: Revenues and growth rates



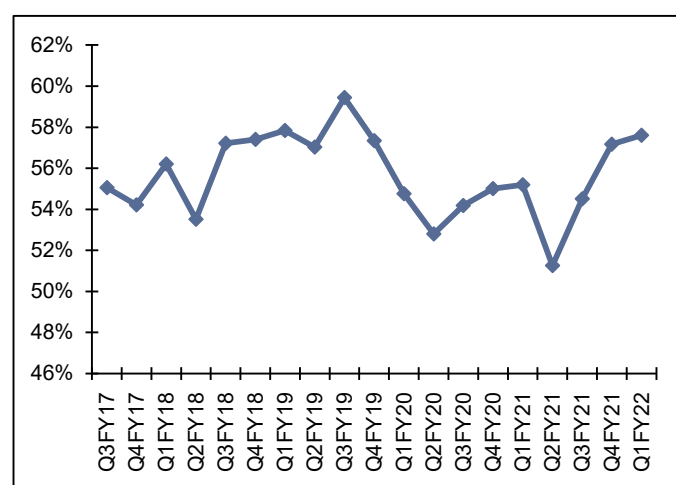
Source: Company data, I-Sec research

### Chart 2: Gross and EBITDA margin



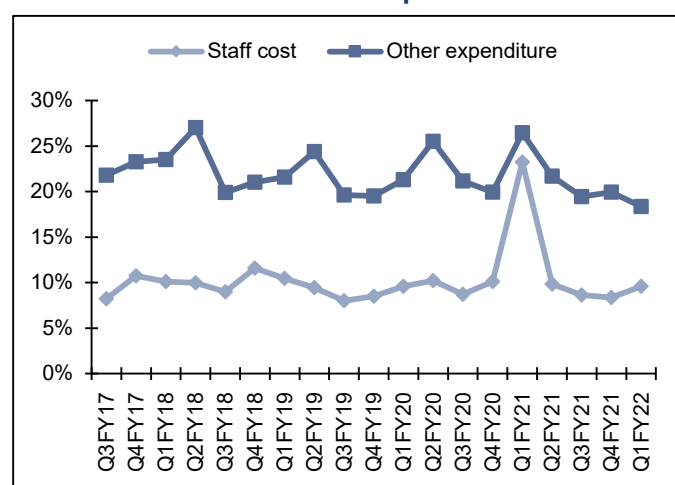
Source: Company data, I-Sec research

### Chart 3: Raw material cost as % Net sales



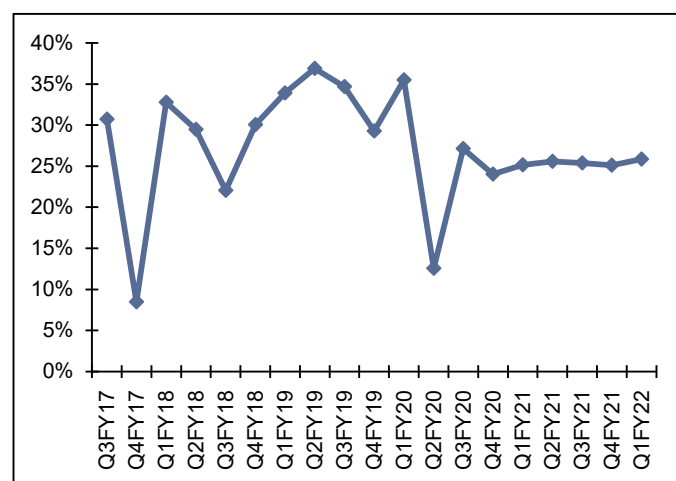
Source: Company data, I-Sec research

### Chart 4: Staff cost & Other expenditure



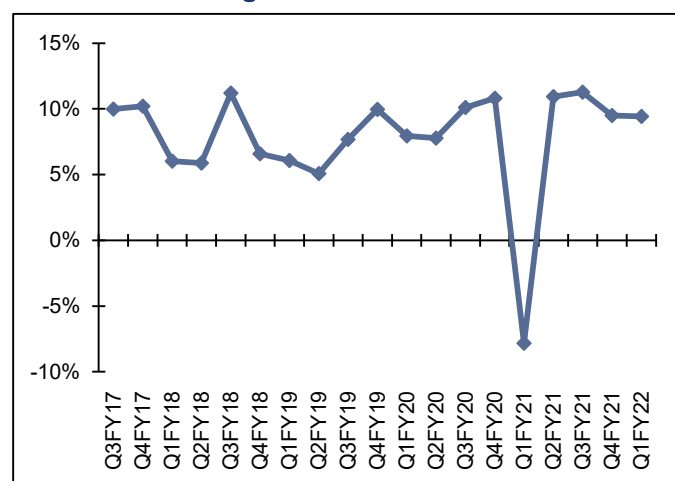
Source: Company data, I-Sec research

### Chart 5: Effective tax rate



Source: Company data, I-Sec research

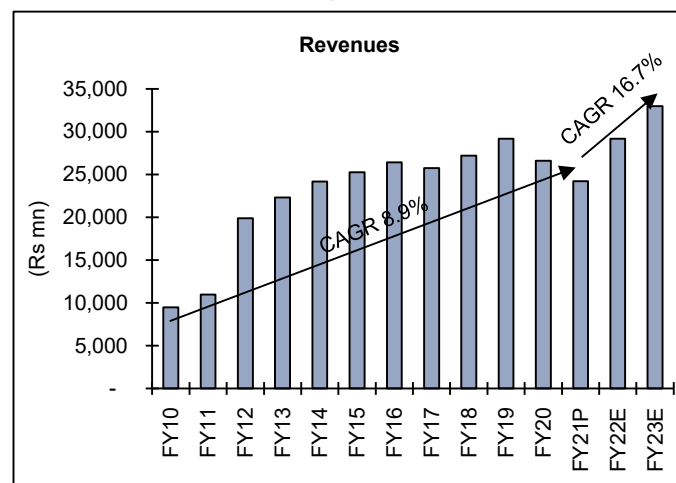
### Chart 6: PAT margin



Source: Company data, I-Sec research

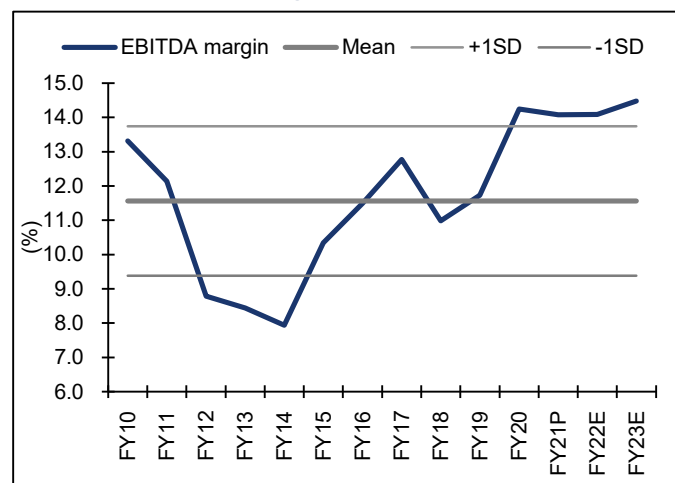
## Annual operational highlights

**Chart 7: Revenues and growth rates**



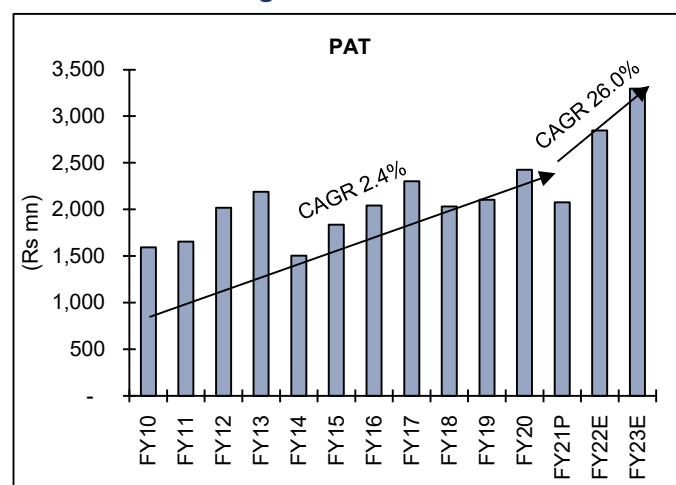
Source: Company data, I-Sec research

**Chart 8: EBITDA margin**



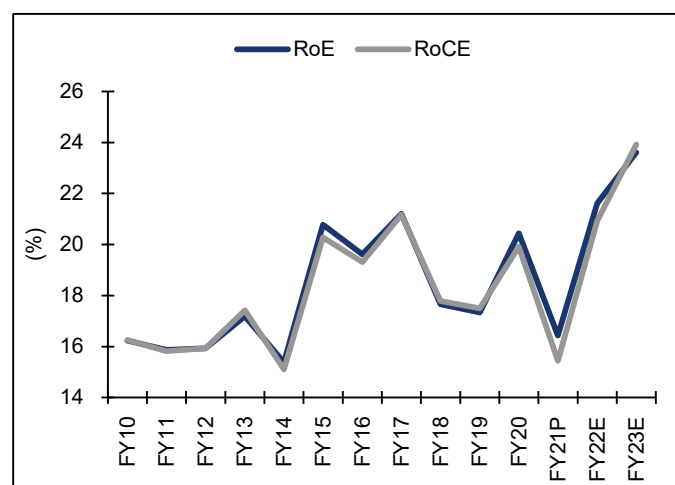
Source: Company data, I-Sec research

**Chart 9: PAT and growth rates**



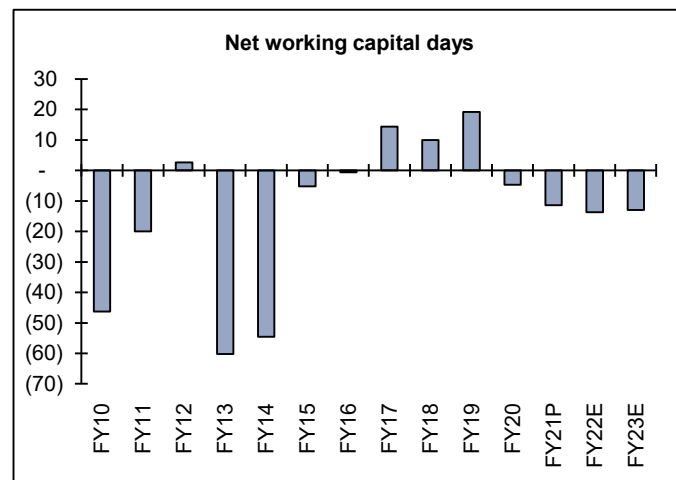
Source: Company data, I-Sec research

**Chart 10: RoE & RoCE**



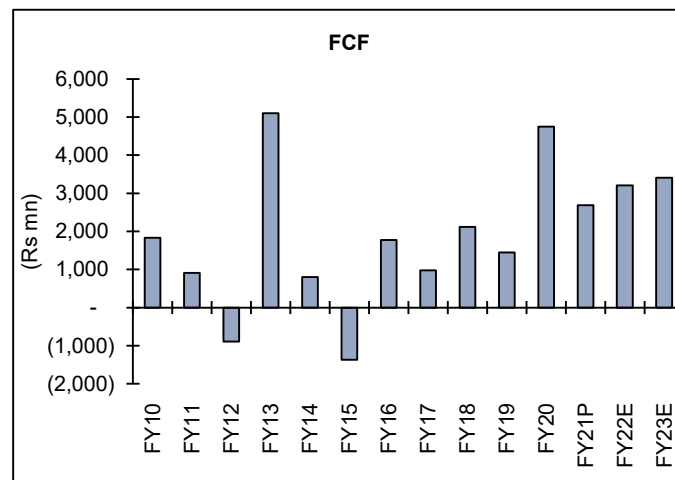
Source: Company data, I-Sec research

**Chart 11: Net working capital days**



Source: Company data, I-Sec research

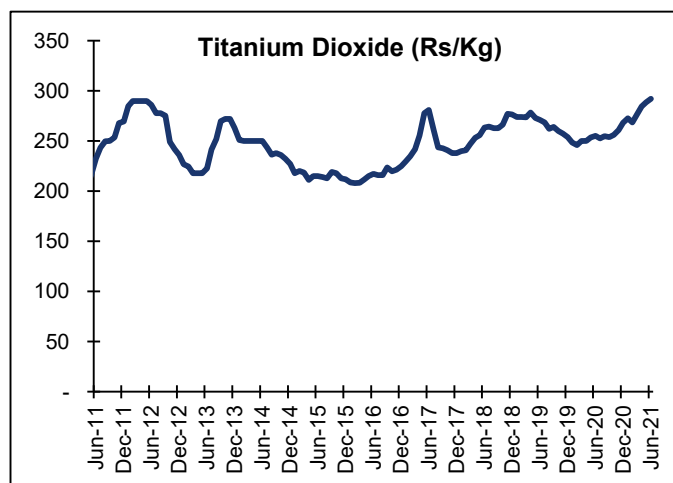
**Chart 12: Free cash-flow**



Source: Company data, I-Sec research

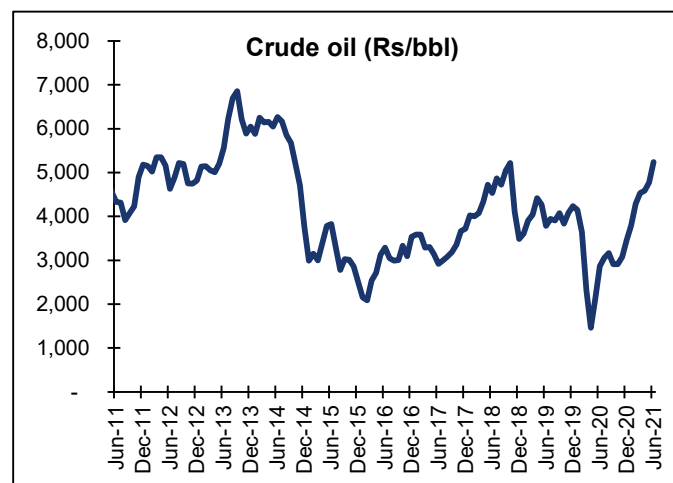
## Key raw material prices

**Chart 13: Titanium di-oxide**



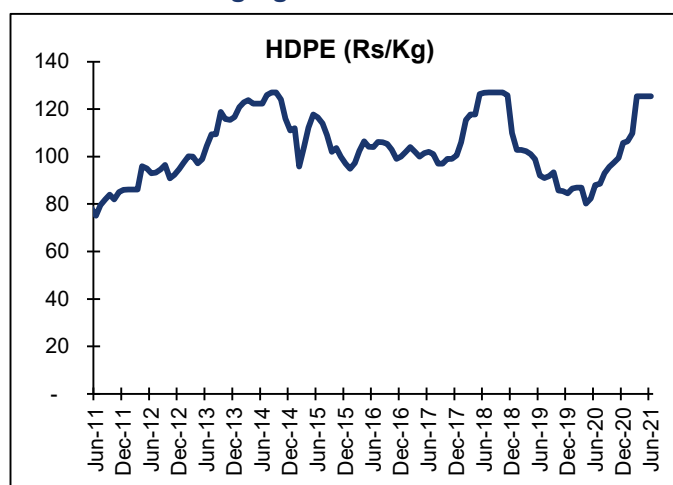
Source: Company data, I-Sec research

**Chart 14: Crude oil**



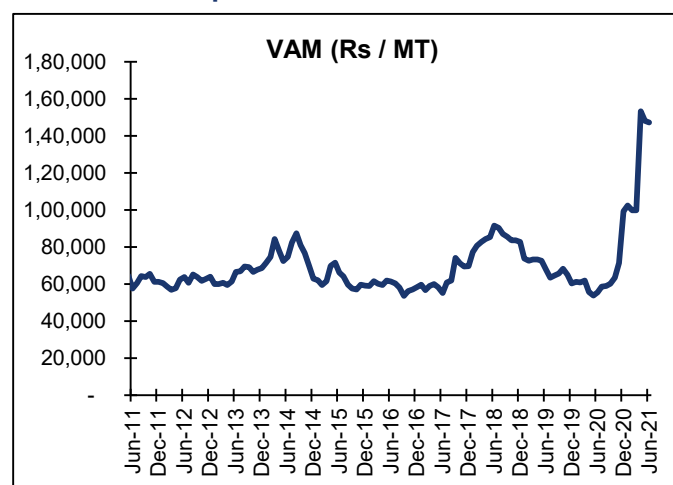
Source: Company data, I-Sec research

**Chart 15: Packaging material - HPDE**



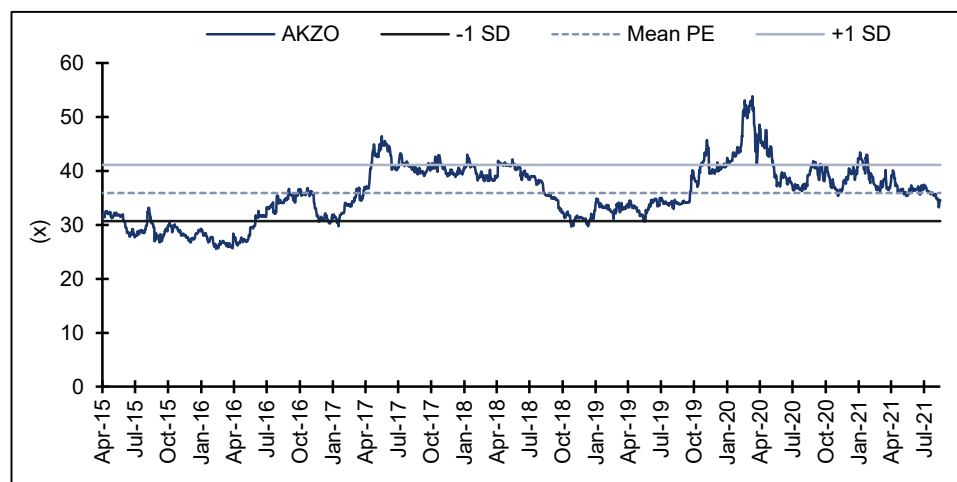
Source: Company data, I-Sec research

**Chart 16: VAM prices**



Source: Company data, I-Sec research

**Chart 17: Mean P/E and standard deviation**



Source: Company data, I-Sec research

## Financial summary

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

|                              | FY20          | FY21P         | FY22E         | FY23E         |
|------------------------------|---------------|---------------|---------------|---------------|
| <b>Net Revenues</b>          | <b>26,618</b> | <b>24,214</b> | <b>29,181</b> | <b>32,975</b> |
| <b>Operating Expenses</b>    | <b>22,827</b> | <b>20,806</b> | <b>25,072</b> | <b>28,200</b> |
| <b>EBITDA</b>                | <b>3,791</b>  | <b>3,408</b>  | <b>4,109</b>  | <b>4,774</b>  |
| % margins                    | 14.2%         | 14.1%         | 14.1%         | 14.5%         |
| Depreciation & Amortisation  | 790           | 756           | 767           | 838           |
| Gross Interest               | 93            | 103           | 38            | -             |
| Other Income                 | 376           | 233           | 517           | 488           |
| <b>Recurring PBT</b>         | <b>3,284</b>  | <b>2,782</b>  | <b>3,821</b>  | <b>4,425</b>  |
| Less: Taxes                  | 858           | 706           | 974           | 1,128         |
| Less: Minority Interest      | -             | -             | -             | -             |
| <b>Net Income (Reported)</b> | <b>2,426</b>  | <b>2,076</b>  | <b>2,847</b>  | <b>3,296</b>  |
| Extraordinaries (Net)        | 91            | 25            | -             | -             |
| <b>Recurring Net Income</b>  | <b>2,335</b>  | <b>2,051</b>  | <b>2,847</b>  | <b>3,296</b>  |

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

|  | FY20          | FY21P         | FY22E         | FY23E         |
|--|---------------|---------------|---------------|---------------|
| <b>Assets</b>                          |               |               |               |               |
| Total Current Assets                   | 14,668        | 17,478        | 18,986        | 21,710        |
| of which cash & cash eqv.              | 5,530         | 7,332         | 6,759         | 7,893         |
| Total Current Liabilities & Provisions | 9,478         | 10,913        | 13,339        | 15,005        |
| <b>Net Current Assets</b>              | <b>5,189</b>  | <b>6,565</b>  | <b>5,647</b>  | <b>6,704</b>  |
| Investments                            | 3,582         | 3,002         | 3,002         | 3,002         |
| Net Fixed Assets                       | 4,733         | 4,476         | 4,459         | 4,421         |
| Capital Work-in-Progress               | 159           | 165           | 165           | 165           |
| Goodwill                               | -             | -             | -             | -             |
| <b>Total Assets</b>                    | <b>13,664</b> | <b>14,207</b> | <b>13,273</b> | <b>14,292</b> |
| <b>Liabilities</b>                     |               |               |               |               |
| Borrowings                             | 1,401         | 1,505         | -             | -             |
| Deferred Tax Liability                 | (116)         | (181)         | (181)         | (181)         |
| Minority Interest                      | -             | -             | -             | -             |
| Equity Share Capital                   | 455           | 455           | 455           | 455           |
| Face Value per share (Rs)              | 10            | 10            | 10            | 10            |
| Reserves & Surplus*                    | 11,924        | 12,428        | 12,998        | 14,017        |
| Less: Misc. Exp. n.w.o.                | -             | -             | -             | -             |
| <b>Net Worth</b>                       | <b>12,379</b> | <b>12,883</b> | <b>13,453</b> | <b>14,473</b> |
| <b>Total Liabilities</b>               | <b>13,664</b> | <b>14,207</b> | <b>13,273</b> | <b>14,292</b> |

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

|  | FY20         | FY21P        | FY22E        | FY23E        |
|--|--------------|--------------|--------------|--------------|
| <b>Operating Cashflow</b>                  | <b>3,216</b> | <b>2,832</b> | <b>3,614</b> | <b>4,134</b> |
| Working Capital Changes                    | 1,859        | 427          | 344          | 76           |
| Capital Commitments                        | (212)        | (504)        | (750)        | (800)        |
| <b>Free Cashflow</b>                       | <b>4,863</b> | <b>2,755</b> | <b>3,209</b> | <b>3,411</b> |
| <b>Cash flow from Investing Activities</b> | <b>191</b>   | <b>580</b>   | <b>-</b>     | <b>-</b>     |
| Issue of Share Capital                     | (771)        | 705          | (0)          | -            |
| Inc (Dec) in Borrowings                    | 1,371        | 104          | (1,505)      | -            |
| Dividend paid                              | (638)        | (2,277)      | (2,277)      | (2,277)      |
| <b>Change in Deferred Tax Liability</b>    | <b>(116)</b> | <b>(65)</b>  | <b>-</b>     | <b>-</b>     |
| <b>Chg. in Cash &amp; Bank balances</b>    | <b>4,899</b> | <b>1,802</b> | <b>(573)</b> | <b>1,134</b> |

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

|                                 | FY20  | FY21P  | FY22E  | FY23E  |
|---------------------------------|-------|--------|--------|--------|
| <b>Per Share Data (Rs)</b>      |       |        |        |        |
| EPS                             | 53.3  | 45.6   | 62.5   | 72.4   |
| Cash EPS                        | 70.6  | 62.2   | 79.4   | 90.8   |
| Dividend per share (DPS)        | 14.0  | 50.0   | 50.0   | 50.0   |
| Book Value per share (BV)       | 265.1 | 275.9  | 288.1  | 309.9  |
| <b>Growth (%)</b>               |       |        |        |        |
| Net Sales                       | (8.8) | (9.0)  | 20.5   | 13.0   |
| EBITDA                          | 10.7  | (10.1) | 20.6   | 16.2   |
| PAT                             | 15.3  | (14.4) | 37.1   | 15.8   |
| Cash EPS                        | 16.7  | (11.9) | 27.6   | 14.4   |
| <b>Valuation Ratios (x)</b>     |       |        |        |        |
| P/E                             | 41.6  | 48.6   | 35.5   | 30.6   |
| P/CEPS                          | 31.4  | 35.6   | 27.9   | 24.4   |
| P/BV                            | 8.4   | 8.0    | 7.7    | 7.2    |
| EV / EBITDA                     | 25.5  | 27.9   | 22.9   | 19.5   |
| EV / Sales                      | 3.6   | 3.9    | 3.2    | 2.8    |
| <b>Operating Ratios</b>         |       |        |        |        |
| Raw Material / Sales (%)        | 54.2  | 54.6   | 55.7   | 55.4   |
| Employee cost / Sales (%)       | 9.6   | 10.4   | 9.3    | 9.2    |
| SG&A / Sales (%)                | 22.0  | 20.9   | 20.9   | 20.9   |
| Other Income / PBT (%)          | 11.5  | 8.4    | 13.5   | 11.0   |
| Effective Tax Rate (%)          | 26.1  | 25.4   | 25.5   | 25.5   |
| Working Capital (days)          | (4.7) | (11.4) | (13.7) | (13.0) |
| Inventory Turnover (days)       | 57.3  | 72.6   | 72.6   | 72.6   |
| Receivables (days)              | 53.6  | 61.4   | 61.4   | 61.4   |
| Payables (days)                 | 168.7 | 217.3  | 217.2  | 217.2  |
| Net D/E Ratio (x)               | 0.1   | 0.1    | -      | -      |
| <b>Profitability Ratios (%)</b> |       |        |        |        |
| Net Income Margins              | 9.1   | 8.6    | 9.8    | 10.0   |
| RoACE                           | 19.9  | 15.4   | 20.9   | 23.9   |
| RoAE                            | 20.4  | 16.4   | 21.6   | 23.6   |
| Dividend Payout                 | 26.3  | 109.7  | 80.0   | 69.1   |
| Dividend Yield                  | 0.6   | 2.3    | 2.3    | 2.3    |
| EBITDA Margins                  | 14.2  | 14.1   | 14.1   | 14.5   |

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

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