

**Akzo Nobel India Ltd.****₹1576****Look for Good Finish...!!! Accumulate**

Dec 14, 2018

**Company Background**

Akzo is a leading paints and coatings company. The Coatings business has two main components: Decorative Paints & Performance Coatings and is served by both organised and unorganised sectors. Company sells decorative paint under the well-known brand Dulux to industries and consumers. Akzo Nobel India is a subsidiary of Akzo Nobel N.V., a Dutch multinational company. After the divestment of Specialty Chemicals business, it is now operating a single segment; which is Coatings. It has five manufacturing facilities, a R&D centre, 50 Sales locations, and four offices. Akzo in India enjoys 9% market share in decorative paints in India serviced through its network of 9,000 plus dealers and 90 depots and six manufacturing facilities. Paints is a B2C business, Coatings is essentially a B2B business and is technology intensive with a diverse set of growth drivers, with strong emphasis on selling a solution rather than a product.

**Key Highlights**

- ➔ For FY18 Coating segment contributed 92% of revenue, rest of the revenue was from sale of Specility Chemical segment. Coating segment generated ₹ 27,571 million, of which 94.90% was from India and rest of 5.09% was from Outside India. For FY19 there will be revenue source, from Coating only .
- ➔ Company proposes to transfer ₹ 400 million to the General Reserve out of the net profit for the year ended 31st March, 2018.
- ➔ During the FY18 company inaugurated its Powder Coatings facility, with an investment of ₹ 650 million. Located in Thane, Mumbai, this is Akzo Nobel's sixth facility in India. The new facility will complement Akzo Nobel's existing plant in Bangalore, adding new product lines in bonded metallic powder and pipe and re-bar coatings.
- ➔ In recent months BoD recommended the sale of it's Specialty Chemicals Business as a going concern to an affiliate of the Akzo Nobel Group. The total consideration to be received from this sale will be ₹ 320 crore. On 2 April 2018, Akzo Nobel India announced that the divestment of the company's Specialty Chemicals Business to Akzo Nobel Chemicals India Pvt Ltd was completed with effect from close of business on 31 March 2018.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	30,013.0	29,358.0	30,335.0
Rev. growth (%)	4.70	(2.18)	3.33
EBITDA (INR mn)	3,701.0	3,941.0	5,398.0
Net profit (INR mn)	2,142.0	2,470.0	4,006.0
Shares outstanding (mn)	46.7	46.7	46.7
EPS (INR)	45.9	52.9	85.8
EPS growth (%)	27.81	15.30	0.00
P/E (x)	29.55	0.00	20.96
RONW (%)	17.72	19.87	34.88
ROCE (%)	24.49	25.40	39.41

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**Info Codes**

Reuters	: AKZO.BO
Bloomberg	: AKZO IN
NSE	: AKZOINDIA
BSE	: 500710

**Market Data**

52 Wk Range (₹)	: 1471/1999
Shares in Issue (mn)	: 46.7
Market. Cap ( bn)	: 75.58
BSE 2 Wk Avg Vol	: 13000

**Share Holding Pattern (%)**

Promoters Holding	: 72.96
Public & Others	: 08.34
Corporate Holding	: 07.94
Foreign Institution	: 01.78
Institutions	: 08.98
Govt Holding	: 00.00

**Investment Theme**

India Paints & Coatings market is expected to cross \$7 billion by 2023, growing at a CAGR of more than 12.87% during 2018-23. Applications of paints & coatings such as construction, automotive, chemicals and many other industrial sectors. The per capita paint consumption in India which is a little over 4 kgs is still very low as compared to the developed western nations. The organised sector controls around 65% of the paint market in India. Now the company can focus on its core capabilities of making and selling paints, after the dispose of its specility Chemical Business. During the FY18, it launched three products such as; Dulux Aquatech, Weathershield Flash and Supercover Sheen, have received encouraging response from the market. New arrivals & focus on core business will improve the future figures.

**Bring good to you...!!!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	26,401.0	25,725.0	(2.6)	27,193.0	5.7
Other Income	666.0	656.0	(1.5)	2,407.0	266.9
Change in Stocks	(57.0)	166.0	(391.2)	(245.0)	(247.6)
Raw Material Con.	14,806.0	14,052.0	(5.1)	15,016.0	6.9
Employee Exp.	2,325.0	2,445.0	5.2	2,763.0	13.0
Indirect Taxes	2,946.0	2,977.0	1.1	735.0	(75.3)
Other Exp.	3,232.0	3,132.0	(3.1)	5,443.0	73.8
Operating Exp.	23,309.0	22,606.0	(3.0)	23,957.0	6.0
Operating Profit	3,701.0	3,941.0	6.5	5,398.0	37.0
Total Interest	22.0	32.0	0.0	35.0	0.0
Gross Profit	3,679.0	3,909.0	6.3	5,363.0	37.2
Net Dep.	537.0	543.0	1.1	582.0	7.2
Total Taxation	1,000.0	896.0	(10.4)	775.0	0.0
Net Profit/Loss	2,142.0	2,470.0	15.3	4,006.0	62.2

### 4 Years Balance Sheet

(₹ mn)

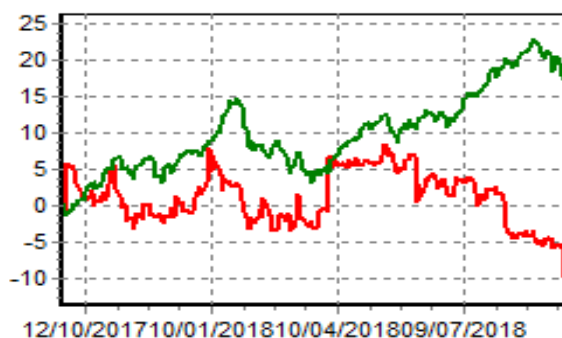
Balance Sheet as on 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17	Mar 18
<b>SOURCES OF FUNDS</b>	<b>9,963.0</b>	<b>12,320.0</b>	<b>10,898.0</b>	<b>13,568.0</b>
Equity Share capital	467.0	467.0	467.0	467.0
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	8,733.0	11,158.0	9,622.0	12,435.0
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	763.0	695.0	809.0	666.0
<b>USES OF FUNDS</b>	<b>9,963.0</b>	<b>12,320.0</b>	<b>10,898.0</b>	<b>13,568.0</b>
Gross Block	9,594.0	5,766.0	6,244.0	6,966.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,430.0	537.0	1,053.0	1,577.0
Net Block	5,164.0	5,229.0	5,191.0	5,389.0
Capital Work in Progress	119.0	89.0	232.0	268.0
Investments	3,944.0	6,004.0	3,356.0	5,733.0
Current Assets	7,684.0	8,436.0	9,322.0	10,277.0
Less : Current Liabilities	7,919.0	7,928.0	7,924.0	8,687.0
Total Net Current Assets	(235.0)	508.0	1,398.0	1,590.0
Misc. Expenses not writtenoff	971.0	490.0	721.0	588.0
<b>NOTE</b>				
Book Value of Unquoted Investments	0.0	4.0	4.0	4.0
Market Value of Quoted Investments	4,320.0	0.0	659.0	713.0
Contingent Liabilities	408.0	1,664.0	1,240.0	1,758.0
Dividend (%)	200.0	700.0	220.0	220.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	7,119.9	7,004.1	7,156.9	7,138.0
Cost Of Sales	6,130.3	6,305.1	6,432.4	6,486.0
Operating Profit	989.6	699.0	724.5	652.0
Other Income	211.8	2,044.1	91.4	85.3
Adjusted PBDIT	1,201.4	2,743.1	815.9	737.3
Financial Expenses	7.5	16.5	8.9	4.7
Depreciation	142.5	150.0	148.8	153.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1,051.4	2,576.6	658.2	579.6
Tax Charges	225.1	198.5	223.1	212.1
Reported Profit	826.3	2,378.1	435.1	367.5
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	826.3	2,378.1	435.1	367.5

## 52 Week Index Relative Percentage Appreciation



Akzo vs SENSEX

## Risks Associated

- ➔ Most of the raw materials are petroleum based. Thus paint companies benefit when the petrochemical industry goes into its cyclical downswing. A hike in the price of petroleum products raises input costs and effects the net profit.
- ➔ Another input material is titanium dioxide (TiO<sub>2</sub>), is currently down by around 12% from its peak, most of the Indian paint companies are importing TiO<sub>2</sub> from china. Import cost will increase as the rupee depreciates.

## Scope of Growth

- ➔ GST rate slashed during the year, from 28% to 18% on Paints & varnishes is a positive sign for the sector. After the GST rate reduction paint industry is projecting higher sales growth ranging between 10%-15% in fiscal 2018-2019, compared with about 9% growth in the previous financial year.
- ➔ Coatings demand is depend on industries like auto, engineering, infrastructure projects & consumer durables. Demand for Coatings is expected to increase going forward on account of higher investments in infrastructure and increased consumer spending.
- ➔ During the FY18, Akzo inaugurated its Powder Coatings facility, with an investment of ₹ 650 million located in Thane, Mumbai. This is Akzo Nobel's sixth facility in India, the new facility will complement Akzo Nobel's existing plant in Bangalore, adding new product lines in bonded metallic powder and pipe and re-bar coatings.
- ➔ The company recently agreed to acquire the business of V.Powdertech Co., Ltd., the leading Thai manufacturer of powder coatings, supplying a range of products for domestic appliances, furniture and general industrial applications.
- ➔ Bangalore plant makes use of wind energy to meet 95% of its energy requirements. Company has invested ₹ 1.3 million on energy conservation equipment during the year.

**In a Nutshell**

Akzo Nobel is into Coatings business. The Coatings business has two main components: Decorative Paints & Performance Coatings and is served by both organised and unorganised sectors. Akzo Nobel India is a subsidiary of Akzo Nobel N.V., a Dutch company. It has five manufacturing facilities, one R&D centre, 50 Sales locations, and four offices. Demand for Paints depends on the housing sector and good monsoons & Coatings demand is depends on industries like auto, engineering, infrastructure projects and consumer durables. Demand for Coatings is expected to increase going forward on account of higher investments in infrastructure and increased consumer spending. Company sells decorative paint under the well-known brand Dulux. During the year, company has launched three products, these products have received good response from the market. During the Q1FY19, Board of Akzo Nobel India Ltd has recommended for approval by the shareholders, to bought back its own shares by the company from the public shareholders. It intends to boughtback a maximum 11.2 lakh shares at ₹ 2,100 per share. The total buyback size works out to ₹ 235.20 crore. R&D expenditure for FY18 was improved by 145% to ₹ 147 million as compare to previous year. Recently inaugurated its Powder Coatings facility, with an investment of ₹ 650 million in Mumbai, this is Akzo Nobel's sixth facility in India. The new facility will complement AkzoNobel's existing plant in Bangalore. Company is planning to acquire the business of V.Powdertech Co., Ltd, it is one of the leading Thai manufacturer of powder coatings. Opening new plant for Powder coatings, new product launch and GST rate cut from 28% to 18% are the positives to achieve good sales figures for the coming years.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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