

Result Update

AKZO NOBEL INDIA LTD

Stock Details

Market cap (Rs mn)	:	85997
52-wk Hi/Lo (Rs)	:	1999 / 1688
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	11,773
Shares o/s (m)	:	47

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	28,318	32,865	36,181
Growth (%)	0.2	16.1	10.1
EBITDA	2,992	3,814	4,450
EBITDA margin (%)	10.6	11.6	12.3
PAT	2,037	24,732	28,099
EPS	44.7	55.8	64.7
EPS Growth (%)	0.5	22.0	13.6
BV (Rs/share)	242.4	115.0	133.5
Dividend/share (Rs)	44.7	9.5	10.0
ROE (%)	19.2	21.9	23.0
ROCE (%)	25.4	29.5	30.9
P/E (x)	41.2	33.0	28.5
EV/EBITDA (x)	23.6	18.9	16.5
P/BV (x)	7.6	6.9	6.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	73.0	73.0	72.3
FII	1.5	1.7	1.9
DII	9.0	9.0	8.5
Others	16.5	16.3	17.3

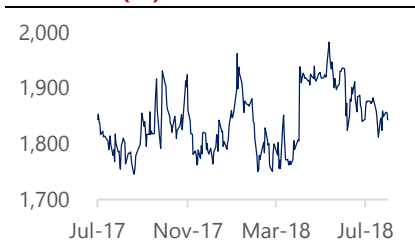
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Akzo Nobel	(1.5)	(4.0)	1.8
Nifty	5.5	4.9	4.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE Rs.1842

TARGET Rs.2200

BUY

Stable volume growth in the decorative segment as well as the industrial segment and raw material price inflation were the highlights of the results for Akzo during the quarter.

Key Highlights

- Akzo experienced low double digit YoY growth across segments led by decorative segment. Management commented that inflation (including Raw material cost) was more pronounced this quarter which impacted the operational performance. Management is making efforts to increase product prices and reduce various cost to counter the situation.
- Sales (excluding GST) was reported at Rs 7.16 bn (2.2% QoQ and +0.1% YoY) despite complete demerger of its speciality chemical business (effective 1st April 2018) which was contributing almost 10% of the revenues/PAT. Strong volume growth has helped the company report EBITDA of Rs 725mn with Ebitda margin of 10.1% (+10bps QoQ and +80 bps YoY) despite inflation in raw material cost. Consequently PAT was reported at Rs 435 mn (-5.6% QoQ and +5.3YoY). We interpret the performance as strong, especially when we consider complete sale of the speciality business division.
- Management is confident of strong volume and sales growth and bounce back of operational performance. Even we believe that the situation is healthy for paint companies in every segment including decorative paints, industrial as well as auto paints.

Valuation and Outlook

We estimate that branded paint demand will remain robust in a country like India where per capita consumption is very low and 30% paint market is still unorganised. Management of Akzo also indicated that the volume trends remain strong for the company and expect the trend to continue in medium term. For Akzo, we estimate 11% volume CAGR over FY18 – FY20E with stable margins and ROE of ~23% and ROCE of ~21.9% for FY20E. Maintain BUY with an unchanged TP of Rs 2200 at 34x FY20E earnings (at 25% discount to PE multiple of peers).

Quarterly Performance

(Rs mn)	Q1FY18	Q4FY18	Q1FY19	YoY (%)	QoQ (%)
Net sales	7149	7004	7157	0.1	2.2
Raw material	4188	4020	4139	(1.2)	3.0
Employee cost	701	812	749	6.8	(7.8)
Other expenses	1594	1473	1544	(3.1)	4.8
Total operating cost	6483	6305	6432	(0.8)	2.0
EBIDTA	666	699	725	8.9	3.7
EBIDTA margin	9.3	10.0	10.1		
Finance cost	5	17	9		
Depreciation	147	150	149	1.4	(0.7)
Other income	68	128	91	33.8	(28.9)
PBT	582	660	658	13.1	(0.3)
Taxes	189	199	223	18.0	12.1
Adjusted PAT	393	461	435	10.7	(5.6)
Exceptional item	20	0	0		
Reported PAT	413	461	435	5.3	(5.6)
Equity	467	467	468		0.2
EPS (Rs)	8.8	9.9	9.3	5.1	(5.8)

Source: Company

Sales was driven by all the segments

Management indicated the financial performance of Q1FY19 could be attributed to:

- Healthy performance of the decorative segment. We estimate low double digit volume growth.
- Stable performance in the industrial segment led by strong automotive demand and improved capex cycle
- Higher raw material prices

Higher Raw Material Prices impacted the margins during the quarter

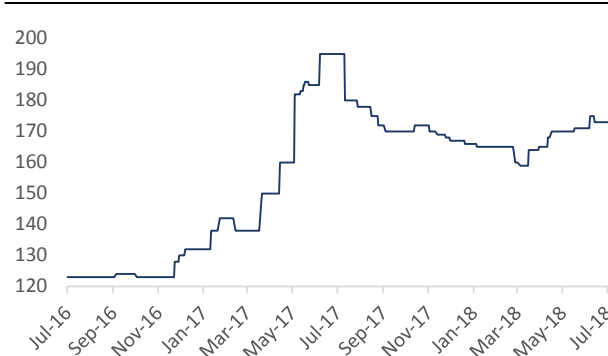
Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint industry is experiencing increase in prices of raw material since the last 3 quarters. Almost ~60% of the raw material are crude derivatives and with crude at \$74/barrel (+25% QoQ), prices of crude derivatives have also increased. Even prices of pigments like Titanium Dioxide, Iron oxide and Zinc oxide have increased. To counter this, the management of Akzo have not resorted to commensurate price increase of its products. We expect the company to take prices hikes (in line with industry leader) to counter the malignant raw material environment.

Brent crude (US\$/barrel)



Source: Bloomberg

Titanium dioxide imported from China (US\$/MT)



Source: Bloomberg

Demerger of Specialty chemical business effected from 1st April 2018

Akzo has divested its specialty chemicals business as a going concern to an affiliate of the Akzo Nobel Group for Rs 3.2 bn. The intention of the company is to focus on core decorative and industrial painting business post demerger in line with business of any conventional paint company. We expect this text- book strategy to be helpful for the Indian business. It is commendable that the performance of the company in Q1FY19 was largely unaffected post the demerger. We can attribute this to strong volume growth in the paint business.

Details of the Divestment

Parameter	Value
FY17 sales	Rs 2650 mn
FY17 PAT	Rs 214 mn
Consideration	Rs 3.2 bn
Trailing PE	15x
Facility	Mahad manufacturing business
No of employees	80
Debt for the business	Nil

Source: Company

Going ahead financials to remain strong

Demand for paints has remained healthy for paint companies in the past and would continue to remain healthy in medium term. For Akzo, we estimate volume growth of 13% with intermittent price increases and decreases (based on demand and raw material situation. This would lead to a revenue CAGR of 9% over FY18E to FY20E. We also estimate the margins of the company to remain stable with a positive bias, which will also improve the return ratios of the company going forward.

Buy back completed – equity capital reduced by 2.4%

The company has concluded share buyback programme on 26 July 2018 after obtaining requisite approvals. Company would be buying back shares worth Rs 2.35 bn at Rs 2100 per share which translates into 1.12 mn shares or 2.4 % of the total equity of the company. We believe the buyback is one of the ways to reward the non-promoter's shareholders of the company rather than giving a special dividend which would have attracted Dividend Distribution Tax. We see this buyback as a positive signal for the stock. The buy-back has reduced the equity capital of the company from Rs 467 mn (46.7mn shares) to Rs 455.8 mn (45.6 mn shares).

Company background

Akzo Nobel NV, the world's largest paints company, operates in India through its subsidiary Akzo Nobel India (AKZO) which it acquired as a part of the global acquisition of Imperial Chemicals Industries (ICI) Plc. in FY08 for USD16bn. Its brand portfolio includes well-known brands such as Dulux, Sikkens, Glidden and International. The company has its headquarter in Amsterdam and operates in more than 80 countries. Akzo in India enjoys ~8% market share in decorative paints in India serviced through its network of 9000 plus dealers, 90 depots and six manufacturing facilities.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	28,249	28,318	32,865	36,181
% change YoY	7.0	0.2	16.1	10.1
RawMaterial	15,826	16,182	18,596	20,270
Employee cost	2,625	2,490	2,960	3,267
Other expenses	6,310	6,654	7,494	8,194
Total Operating expd	24,761	25,326	29,050	31,731
EBITDA	3,488	2,992	3,814	4,450
Depreciation	565	595	657	708
EBIT	2,923	2,397	3,157	3,742
Other income	493	460	500	500
Interest expense	32	37	24	28
Profit before tax	3,384	2,820	3,633	4,213
Tax	953	783	1,090	1,264
ETR (%)	28.2	27.8	30.0	30.0
Profit after tax	2,431	2,037	2,543	2,949
JV & Associates	0	0	0	0
Net income	2,431	2,037	2,543	2,949
% change YoY	7.0	0.5	22.0	13.6
Shares outstanding (m)	46	46	46	46
EPS	53.3	44.7	55.8	64.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	2,431	2,037	2,543	2,949
Depreciation +DTL	278	673	766	835
Change in working capital	(963)	132	119	(108)
Cash flow from operations	1,746	2,842	3,428	3,676
Capex	(670)	(595)	(589)	(634)
Investments	2,692	(261)	(200)	(300)
Cash flow from investments	2,022	(856)	(789)	(934)
Equity issuance	-	-	-	-
Debt raised	11	51	46	46
Dividend Paid	(3,903)	(1,242)	(1,539)	(1,784)
Miscellaneous items	-	-	-	-
Cash flow from financing	(3,892)	(1,191)	(1,493)	(1,738)
Net cash flow	(124)	795	1,147	1,003
Opening cash	1,231	1,107	1,902	3,049
Closing cash	1,107	1,902	3,049	4,052

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	1,107	1,902	3,049	4,052
Debtors	4,121	3,954	4,692	5,109
Inventory	4,054	4,018	4,624	5,139
Loans & advances	13	20	20	20
Other current assets	681	637	766	829
Total current assets	8,869	8,630	10,102	11,096
LT investments	3,439	3,700	3,900	4,200
Net fixed assets	5,423	5,423	5,354	5,280
Total assets	18,838	19,655	22,407	24,630
Creditors	6,232	5,891	7,140	7,790
Provisions	839	939	1,017	1,131
Other current liabilities	1,442	1,575	1,839	1,961
Total current liabilities	8,513	8,405	9,996	10,882
LT debt	140	191	237	283
Minority Interest	0	0	0	0
Equity Capital	456	456	456	456
Reserves	9,718	10,591	11,705	12,996
Networth	10,174	11,047	12,160	13,452
Total liabilities	18,827	19,643	22,395	24,618

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	12.3	10.6	11.6	12.3
EBIT margin (%)	10.3	8.5	9.6	10.3
Net profit margin (%)	8.6	7.2	7.7	8.2
ROE (%)	22.0	19.2	21.9	23.0
ROCE (%)	33.1	25.4	29.5	30.9
DPS	71.0	8.7	9.5	10.0
CEPS	65.7	57.7	70.2	80.2
Book Value (Rs/share)	223.2	99.5	115.0	133.5
Working capital turnover (days)	(1.6)	3.7	1.8	1.6
Debt Equity (x)	0.0	0.4	0.2	0.0
PER (x)	34.5	41.2	33.0	28.5
P/C (x)	28.0	31.9	26.2	23.0
Dividend yield (%)	3.9	1.2	1.5	1.8
P/B (x)	8.3	7.6	6.9	6.2
EV/Sales (x)	2.9	2.9	2.5	2.3
EV/ EBITDA (x)	20.5	23.6	18.9	16.5

Source: Company, Kotak Securities – Private Client Research

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
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