

Akzo Nobel –An MNC Player

CMP 937

BUY

Target 1172

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- ~ 100 Years Old Company
- ~Industry Prospects are very bright
- ~Strong Parent's Patronage (MNC Player)
- ~Robust historical Performance
- ~Continuously enhancing the capacity
- ~Upcoming Retail Outlet
- ~Doubling Employees strength by FY14

~ Company Description

Akzo Nobel India Limited engages in the manufacture and sale of decorative and refinish paints in India and internationally. It offers exterior paints under the under the Dulux and Duco brands; and exterior emulsions under the Weathershield and Supercote brands. The company also operates retail outlets under the Dulux Decorator Centres trademark, as well as sells its products through sales offices and other distribution networks. In addition, it trades in food starch and polymers. The company was formerly known as ICI India Limited and changed its name to Akzo Nobel India Limited in February 2010 after acquisition by world largest paint maker Akzo Nobel. Akzo Nobel India Limited was founded in 1911 and is based in Gurgaon, India. Akzo Nobel known for its premium segment product Dulux has a market share of 10-12%. Company is planning to launch new products to cater fast growing mid-market segment to regain its market share.

~ Industry Prospects are very bright

Growth of the paint industry has been consistent with the growth of Indian GDP. Paint industry has been growing at a rate of 1.5 to 2 times of Indian GDP growth. The Decorative segment shows a seasonal trend with sales peaking during the festive seasons in the months of September to November, whereas the demand is low in the monsoons. The Indian Paint industry, estimated to be an Rs.21, 000 Cr. industry, has been growing at a rate of above 15% for the past few years. The organized players of the industry cater to about 65% of the overall demand, whereas the unorganized players take care of the remaining 35%, in value terms.

| Key Data | | | |
|--------------------------|------------|---------|-------|
| Price (Rs.) | 937 | | |
| Market Cap (Rs.Crs.) | 3456 | | |
| 52 High / Low (Rs.) | 975/680.05 | | |
| Mcap/Sales | 3 | | |
| Book Value (Rs.) | 296 | | |
| PE | 18 | | |
| EPS | 52 | | |
| P/BV | 3 | | |
| FV | 10 | | |
| BSE | 500710 | | |
| NSE | AKZOINDIA | | |
| Ket Financials | | | |
| (Rs Crores) | FY10 | FY11 | % chg |
| Net Sales | 1010.86 | 1192.06 | 17.93 |
| PBIDT | 219.82 | 218.91 | -0.41 |
| Interest | -1.39 | -22.66 | - |
| Depreciation | 21.24 | 21.66 | 1.98 |
| Net Profit | 159.26 | 176.65 | 10.92 |
| EPS (Rs) | 43.24 | 47.96 | - |
| Dividend (%) | 160 | 180 | - |
| Equity Capital | 36.83 | 36.83 | - |
| FV | 10 | 10 | - |
| PE (x) | 21.67 | 19.54 | - |
| Latest Quarterly results | | | |
| (Rs Crores) | Jun-10 | Jun-11 | % chg |
| Net Sales | 307.23 | 371.26 | 20.84 |
| PBIDT | 64.33 | 81.85 | 27.23 |
| Net Profit | 43.94 | 67.98 | 54.71 |
| Equity | 36.83 | 36.83 | - |
| EPS | 11.93 | 18.46 | - |

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Time Horizon – 12 Months

| Shareholding Pattern | | | |
|----------------------|--------|--------|-------|
| (%) | Mar-11 | Jun-11 | chg |
| Foreign | 1.6 | 1.75 | 0.15 |
| Institutions | 18.38 | 18.31 | -0.07 |
| Corp. Holding | 13.38 | 13.25 | -0.13 |
| Promoters | 56.41 | 56.41 | 0.01 |
| Public&Others | 10.24 | 10.29 | 0.05 |



The Indian paint Industry has a wide potential for growth, India's per capita paint consumptions 1.2 Kg against 15 kg in developed countries. India, the world's fifth largest economy in terms of purchasing power, is emerging as an attractive market for global investors in the paints industry. So, the absolute consumption of paint in India is definitely expected to rise.

The market share of the organized sector is on an increasing trend. Also, the contribution of industrial segment will increase with the continuing economic development of the country.

~ Strong Parent's Patronage (MNC Player)

Akzo Nobel, the world's largest Paint Company, entered the Indian market by acquiring ICI Paints (now Akzo Nobel India.). It is the largest global paints and coatings company and a major producer of specialty chemicals. It supplies industries worldwide with quality ingredients for life's essentials. It has employed around 57,000 people and operating its subsidiaries with over 80 countries. Akzo Nobel India now has full technology backup from its parent. This means that it can effectively expand its product portfolio and broaden its market reach.

~ Robust historical Performance

The company's sales and profits have grown at a compounded average annual rate of 5% and 18% respectively, from 2006 to 2011. As per FY2011 balance sheet, Akzo's cash and liquid investments stood close to ~INR1015 Crore which is around 1/3 of its market cap and 276 Rs. In the last 5 years, Akzo has been absolutely debt-free. It has managed all the capex through its internal accruals.

~ Continuously enhancing the capacity

Company has opened a new coating plant near Bangalore with a capacity of manufacturing up to 18 million liters per year. Company has planned to set up a 100 million liters Greenfield plant an estimated cost of Rs. 200 Crore.

| Balance Sheet | FY10 | FY11 |
|-------------------------------------|---------------|----------------|
| SOURCES OF FUNDS: | | |
| Share Capital | 36.83 | 36.83 |
| Reserves & Surplus | 955.28 | 1054.82 |
| Total Liabilities | 992.11 | 1091.65 |
| APPLICATION OF FUNDS: | | |
| Fixed Assets | 140.4 | 156.35 |
| Investments | 960.22 | 984.99 |
| Current Assets, Loans & Advances | 272.43 | 398.58 |
| Inventories | 97.19 | 153.18 |
| Sundry Debtors | 80.8 | 70.14 |
| Cash & Bank Balance | 14.3 | 30.31 |
| Loans & advances | 80.14 | 144.95 |
| Current Liabilities & Provisions | 380.94 | 448.27 |
| Current Liabilities | 223.58 | 274.49 |
| Provisions | 157.36 | 173.78 |
| Net Current Assets | -108.51 | -49.69 |
| Total Assets | 992.11 | 1091.65 |
| Ratios | | |
| ROE % | 9.74 | 11.69 |
| PBDIT Margins % | 21.75 | 18.36 |
| PAT Margins % | 15.75 | 14.82 |

| Financial Projections | | |
|-----------------------|--------|--------|
| (in crs) | FY12E | FY13E |
| Net Sales | 1430.5 | 1730.9 |
| PBDIT | 286.4 | 372.1 |
| PAT | 233.9 | 302.9 |
| EPS | 63.50 | 82.24 |
| Equity | 36.8 | 36.8 |
| FV | 10 | 10 |
| PE @ CMP | 14.8 | 11.4 |

Rs. 50 crore expansion projects for water based paints at Hyderabad will be commissioned first week of August, 2011.

~ Upcoming Retail Outlet

Akzo Nobel India, owners of the Dulux paint brand, plans to set up over 200 retail paint outlets to provide customers with a 'retail experience' before painting their home walls. The centres will come up in north & south this fiscal.

~ Doubling Employees strength by FY14

With the surge in product demand & stable performance of its employees, company expects a need of increase in its man power strength which is going to double from its current level of 1500 employees. This shows aggressiveness of the parent for Indian Market.

~ Valuations

At CMP of INR 937, Akzo is trading at a PE of 14.8x and 11.4x for FY 12e & FY13e respectively. Historically, stock is quoting at 1 year forward multiple of 16-17 times, however with acquisition new professional management is in place will bring in new focus for the company which is already visible from this quarter results.

We expect company PE to re rate from 16-17x to 18-20x. at PE of 18x our target price is 1172 which is ~25% upside form the CMP.

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