Akzo Nobel India Ltd .(ANIL)	
No. of shares (crore)	4.67
Mkt cap (Rs crs)	6490
Current price (24/04/2015)	1391
Price target (Rs)	1706
52 week H/L	1551/815
Book Value (Rs) (FV: 10)	212
P/BV (FY15e/16e/17e)	6.3/6.2/5.5
P/E (FY15e/16e/17e)	33.6/26.6/20.4
EPS growth(FY15e/16e/17e)	28.8/26.4/30.3
ROE(FY15e/16e/17e)	18.4/23.2/26.9
Beta	0.65
Daily volume (avg weekly)	12710
BSE Code	500710
NSE Code	AKZOINDIA
Bloomberg	AKZO IN
Reuters	AKZO.BO

Shareholding pattern	%
Promoters	72.96
MFs / Banks / FIs	8.82
Foreign	2.05
Non-promoter Corp	7.19
Total public	8.98
Total	100
As on Dec 31, 2014	

Recommendation

BUY

Analyst

VIPUL SANGHANI

Phone: + 91 (33) 4488 0055

E- mail: Vipul.sanghani@cdequi.com

Company Brief

Akzo Nobel India Ltd. (ANIL) manufactures and markets a wide range of coatings covering decorative paints, performance coatings and specialty chemicals, having its registered office in Kolkata, India. The company's product portfolio includes marquee brands such as Dulux, Sikkens, International and Interpon.

Highlights

- ANIL reported revenue and PAT of Rs 687 cr and 51 cr respectively in Q3FY15 as compared to revenue and PAT of Rs 656 cr and 27 cr respectively in Q3FY14 registering a revenue growth of 5% and PAT growth of 88%. Operating profit improved substantially from Rs 42 cr in Q3FY14 to Rs 80 cr in Q3FY15 aided by softening in raw materials cost.
- ANIL's improved business performance is led by both, a robust growth in sales of high performance products as well as continued focus on cost management, supplemented by soft input prices, especially the crude linked ones. It is in line with the company's growth plans. The company has introduced some new products in the market, including water based enamel, "Dulux satin Stay Bright."
- For 9MFY15, ANIL's top line grew by meagre 7% compared to 9MFY14, which is below our expectation. However PAT grew by 46% over the same period on account of higher other income and expansion in operating margins which improved substantially by more than 300 bps.
- The stock currently trades at 26.6x FY16e EPS of Rs 52.38 and 20.4x FY17e EPS of Rs 68.25, which seems to be undervalued given other companies in the sector. Considering the strong prospects for Indian housing industry and low per capita consumption in India v/s global average, hence one could expect rise in consumption of paints in India. We reiterate a buy on the stock with a revised target price of Rs 1706 (previous target: Rs 1527) based on 25x FY17e earnings in the ensuing 9-12 months (Refer to our report dated 30/09/2014).

Figures in Rs crs	FY13	FY14	FY15e	FY16e	FY17e
Income from operations*	**2231.98**	**2417.91**	**2648.58**	**3040.72**	**3583.02**
Other Income	**138.12**	**56.69**	**60.52**	**60.52**	**60.52**
EBITDA- Incl OI	**326.70**	**248.51**	**338.07**	**408.79**	**524.90**
Net Profit after extraordinary items	**218.83**	**150.22**	**191.65**	**244.39**	**318.46**
EPS	**46.90**	**32.19**	**41.45**	**52.38**	**68.25**
EPS Growth (%)	**-14.5**	**-31.4**	**28.8**	**26.4**	**30.3**

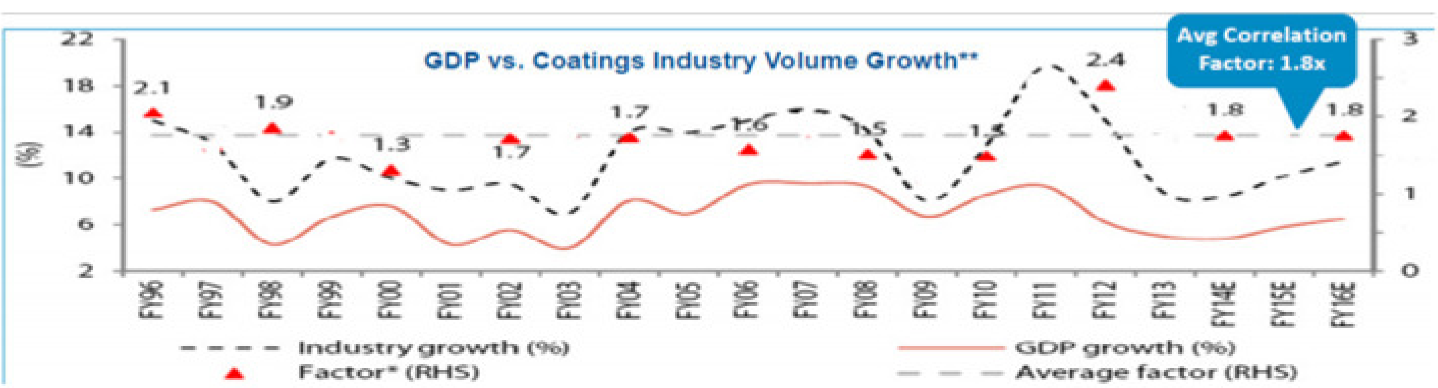
* Include Other Operating Income

Outlook & Recommendation

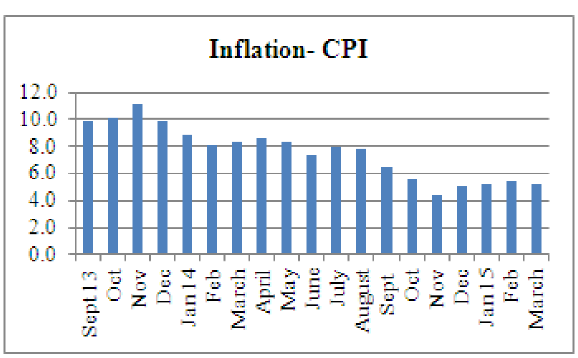
Industry Overview

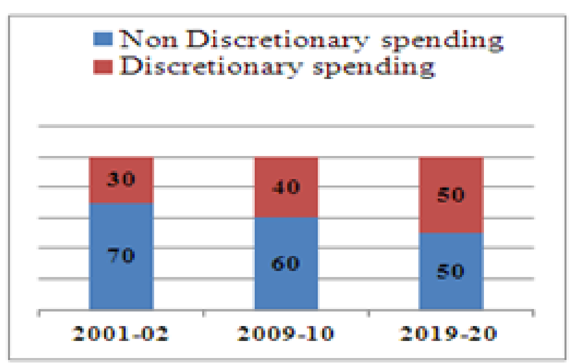
The Indian paint industry is set for a buoyant growth over the next few years and as per ASSOCHAM report, it is likely to surge from Rs 40,600 cr in FY14 to Rs 60,000 cr in FY16, a growth of approximately 20% CAGR. The decorative paints segment contributed nearly 73% at Rs 29,638 cr, while the remaining Rs 10,962 cr was contributed by the industrial segment. The factors that will fuel the decorative paints industry's growth are expected rise in GDP growth rate, rise in disposable income (on account of fall in inflation) which will lead to higher discretionary spending, stable exchange rate, moderating inflation, consumer's shift to premium products, shortening of re- painting cycle, better demand from tier II and tier III cities, development of the rural market, various launches of innovative products by the paints companies and affordable housing scheme of the government.

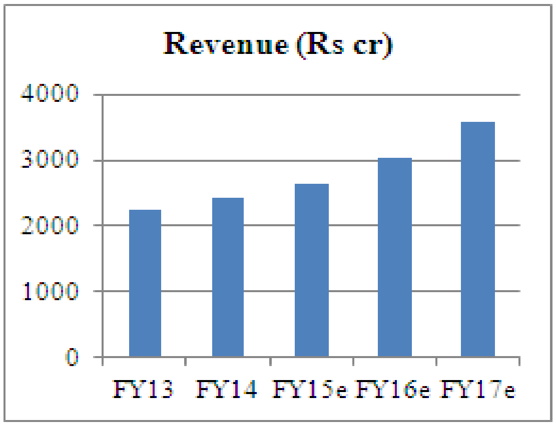
Apart from these other factors like urban demand, easy availability of finance for housing, shift from joint families to nuclear families and pick up in industrial activity augur well for this premium decorative and major industrial coatings company. ANIL is all set to reap the benefits from the above factors and decorative paints business is going to lead from the front. ANIL's industrial paints segment is currently witnessing a sub-dued growth, led by poor automotive and infrastructure related demand. We believe ANIL's this segment would perform better with the pickup in auto and infrastructure industries. ANIL is expected to be major beneficiary of revival in capex cycle and company's investment in Gwalior plant for water based decorative paints is going to be the growth driver for the company in coming years. Along with this input costs backed by stable exchange rates, improvement in product mix and technology will provide impetus to the margins.



Source: Company, CD Equisearch







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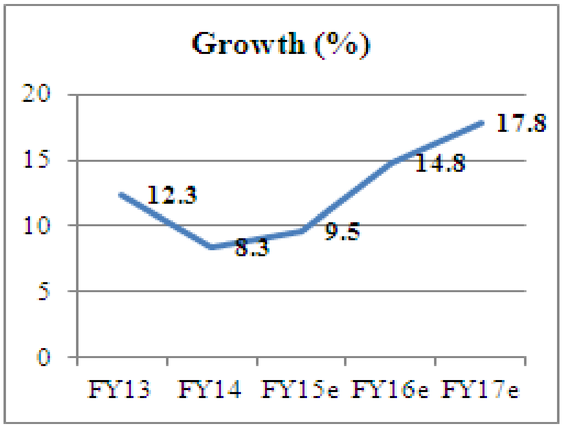
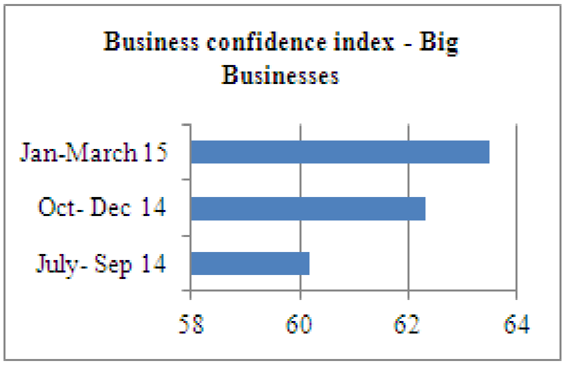


Source: Company, CD Equisearch

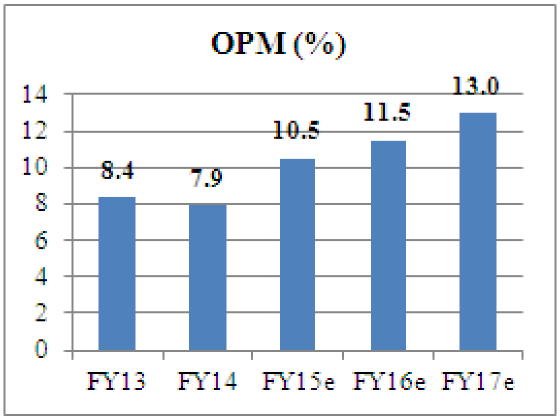


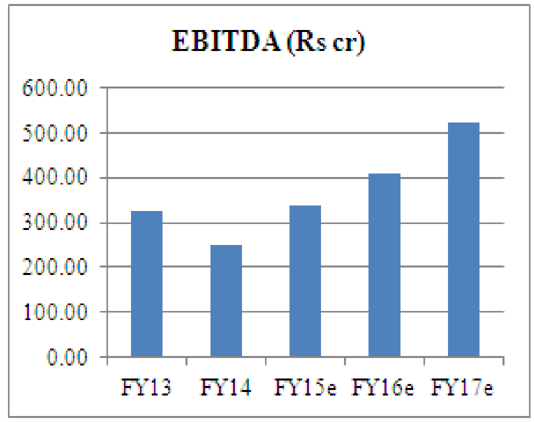
Source: Business Today, CD Equisearch
Big Businesses-turnover>Rs 500 cr

Strong Financials

ANIL's 9MFY15 sales were slightly lower than our expectations at Rs 1934.83 cr (up 7.1% on YoY basis) due to sluggish macro environment. However, we expect volume growth to pick-up in both decorative paints segment as well as industrial paints segment with increased consumption demand and expected revival in investment cycle. ANIL's strength lies in the premium segment (Dulux Velvet) of decorative paints, where it enjoys 20% plus market share and is the second largest player in Asia after Asian Paints. There has been a pick-up in urban demand over the last few months, largely due by improved consumer sentiment. Any further revival in urban demand will benefit ANIL more than other companies in the paints industry as the company will have an edge due to the higher share of the urban market in its revenue. ANIL's problem lies in the mid and lower segment, where the company's market share is very low compared to other players. However, the company is looking to expand by augmenting the dealer network. The company is also present in specialty chemicals business. However company derives very small chunk of revenue from this business.

We expect ANIL to register sales of Rs 2648.58 cr in FY15e (growth of 9.5% over FY14) and PAT of Rs 191.65 cr, higher than our earlier estimation on account of higher other income and margin expansion above our expectation. For FY16e and FY17e, we expect ANIL to register sales of Rs 3040.72 cr and 3583.02 cr, a growth of 14.8% and 17.8% respectively. Further with softening of raw materials cost and higher other income, we expect company to report higher profitability in FY15e and FY16e than our previous estimation. We raise our EPS forecast by 8.7% in FY15e and by 9.8% in FY16e. ANIL's business looks well poised to gain advantage from affordable housing scheme by the government and pick up in industrial activities. ANIL's Gwalior plant holds the key for growth of business in coming years.

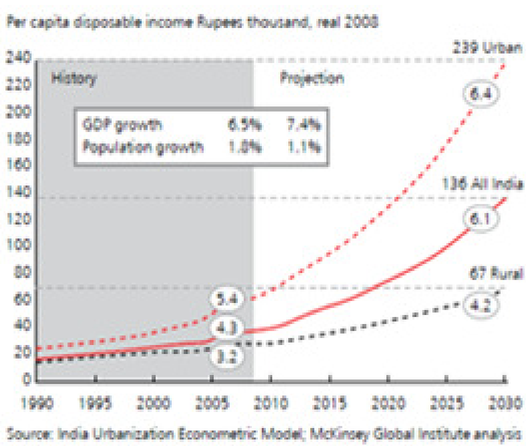


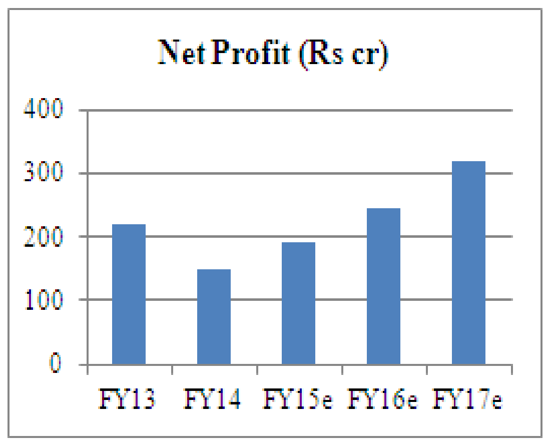


Source: Company, CD Equisearch

Operating Profit Margin to Expand

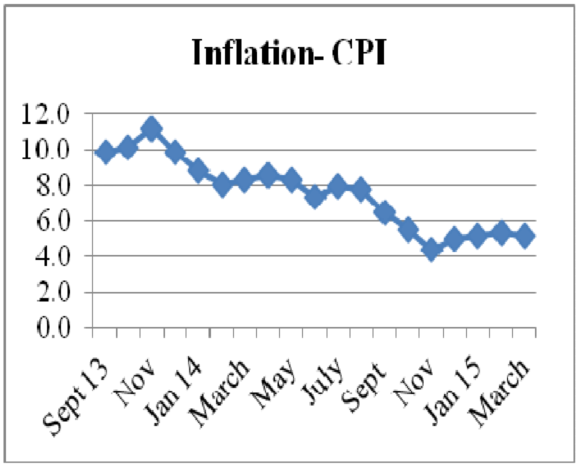
Operating profit margin of ANIL recorded strong improvement of more than 300 bps to 10.33% in 9MFY15. Margin expansion came on the back of continued focus on cost management by the company, as supplemented by soft input prices, especially the crude linked ones. We expect margins to improve further by 100 bps in FY16e and by 150 bps in FY17e as company gains on economies of scale and higher operating leverage.





Valuations

The stock currently trades at 26.6x FY16e EPS of Rs 52.38 and 20.4x FY17e EPS of Rs 68.25, which seems to be undervalued given other companies in the sector. Given the strong prospects for Indian housing industry and low per capita consumption in India v/s global average, hence one could expect the rise in consumption of paints in India. We expect ANIL's ROE to be 23.2% and 26.9% in FY16e and FY17e, on the back of improving profitability. ANIL's valuations leave scope of improvement looking at sector prospects and expected profitability. We reiterate a buy on the stock with a revised target price of Rs 1706 based on 25x FY17e earnings.



Source: Trading Economics, CD Equisearch

Risks & Concerns

Slowdown in economic growth

Any slowdown in economic growth may hamper ANIL's growth as the volume growth of paints industry in India is directly linked with GDP growth.

Inflation

In the last few months, inflation has been showing signs of coming down, but the risk remains since this is a direct play on discretionary expenditure. If inflation rises, the demand for decorative paints goes down.

Foreign Exchange Fluctuations and Raw Materials Prices

Price of inputs plays an important role in paints industry. Any rise in prices of inputs on account of foreign exchange fluctuations may hit ANIL's margins adversely and thus may affect profitability going ahead.

Delay in Investments

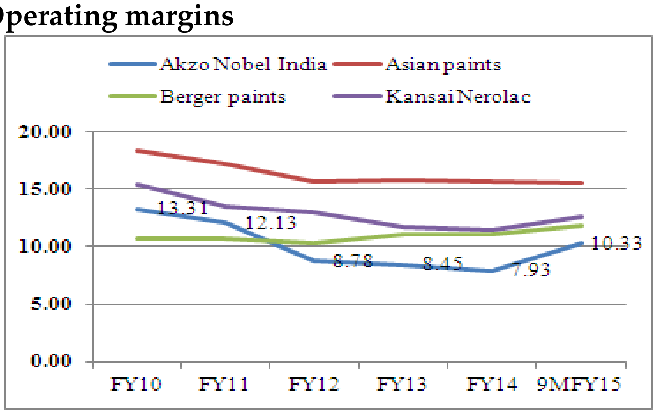
Any further delay in investments (public as well as private) will impact the demand for industrial coatings, since it is directly linked with growth of infrastructure

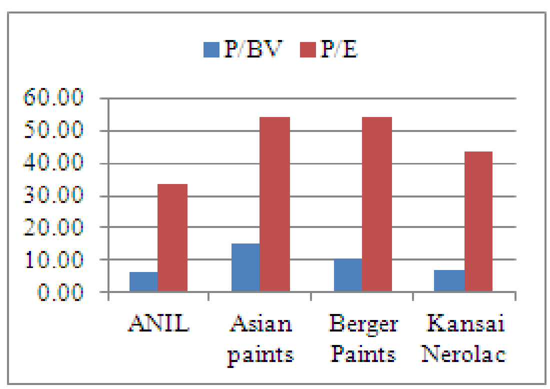
Cross Sectional Analysis

Company	Equity*	CMP	Market cap*	Sales*	Profit*	OPM	NPM	ROE	Mkt cap / sales	P/BV	P/E
ANIL	47	1391	6490	2546	195	10.3%	7.6%	21%	2.5	6.6	33.4
Asian paints	96	771	73988	13955	1366	15.2%	9.8%	30%	5.3	15.1	54.2
Berger Paints	69	206	14285	4248	262	11.7%	6.2%	21%	3.4	10.8	54.5
Kansai Nerolac	54	208	11209	3481	256	12.3%	7.4%	16%	3.2	6.9	43.8

Source: Capitaline plus, company, CD Equisearch
*TTM Basis

Operating margins





Financials

Quarterly Results Rs in crs

	Q3FY15	Q3FY14	%chg.	9MFY15	9MFY14	%chg.
Net Sales	671.41	643.93	4.3	1892.03	1770.43	6.9
Other Operating Income	15.61	12.37	26.2	42.8	35.86	19.4
Income from operations	687.02	656.30	4.7	1934.83	1806.29	7.1
Other Income	6.78	4.32	56.9	54.04	34.14	58.3
Total Income	**693.80**	**660.62**	**5.0**	**1988.87**	**1840.43**	**8.1**
Total Expenditure	**606.64**	**614.41**	**-1.3**	**1734.89**	**1677.79**	**3.4**
PBIDT	87.16	46.21	88.6	253.98	162.64	56.2
Interest	0.30	0.38	-21.1	1.34	1.29	3.9
Depreciation	12.86	11.88	8.2	38.88	32.00	21.5
PBT	**74.00**	**33.95**	**118.0**	**213.76**	**129.35**	**65.3**
Tax	23.26	6.94	235.2	72.09	33.80	113.3
PAT	**50.74**	**27.01**	**87.9**	**141.67**	**95.55**	**48.3**
Extra-ordinary Items	0.00	0.00	-	1.77	0.00	-
Adjusted Net profit	**50.74**	**27.01**	**87.9**	**139.90**	**95.55**	**46.4**

Income Statement Rs in crs

	FY13	FY14	FY15e	FY16e	FY17e
Income from operations	2231.98	2417.91	2648.58	3040.72	3583.02
Growth(%)	12.3	8.3	9.5	14.8	17.8
Other Income	138.12	56.69	60.52	60.52	60.52
Total Income	**2370.10**	**2474.60**	**2709.10**	**3101.24**	**3643.54**
Total Expenditure	**2043.40**	**2226.09**	**2371.04**	**2692.44**	**3118.64**
EBITDA	326.70	248.51	338.07	408.79	524.90
Interest	8.93	1.47	1.79	1.61	1.45
EBDT	317.77	247.04	336.28	407.18	523.46
Depreciation	38.65	43.67	51.84	58.06	68.51
Tax	60.29	53.15	91.02	104.74	136.48
Reported PAT	**218.83**	**150.22**	**193.42**	**244.39**	**318.46**
Extraordinary item	0.00	0.00	1.77	0.00	0.00
Adjusted Net profit	**218.83**	**150.22**	**191.65**	**244.39**	**318.46**
EPS	**46.90**	**32.19**	**41.45**	**52.38**	**68.25**

Balance sheet Rs in crs

	FY13	FY14	FY15e	FY16e	FY17e
SOURCES OF FUNDS					
Share Capital	46.70	46.70	46.70	46.70	46.70
Reserves	1058.60	801.10	994.52	1005.91	1137.97
Total Shareholders Funds	**1105.30**	**847.80**	**1041.22**	**1052.61**	**1184.67**
Total Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities	80.80	81.70	78.24	78.24	78.24
Total Liabilities	**1186.10**	**929.50**	**1119.46**	**1130.85**	**1262.91**
APPLICATION OF FUNDS					
Gross Block	731.00	904.90	1085.88	1194.47	1290.03
Less: Accumulated Depreciation	376.20	402.40	454.24	512.30	580.81
Net Block	**354.80**	**502.50**	**631.64**	**682.17**	**709.21**
Capital Work in Progress	105.70	30.60	13.24	10.00	10.00
Investments	947.20	628.60	366.54	366.54	366.54
Current Assets, Loans & Advances					
Inventory	314.90	324.20	390.89	334.48	412.05
Sundry Debtors	251.60	307.60	304.59	395.29	429.96
Cash and Bank	85.70	72.20	80.76	88.84	110.91
Loans and Advances	153.60	68.20	55.94	61.53	61.53
Total CA & LA	**805.80**	**772.20**	**832.18**	**880.14**	**1014.45**
Current liabilities	595.60	610.10	687.52	721.89	757.99
Provisions	518.80	487.20	129.03	141.93	141.93
Total Current Liabilities	1114.40	1097.30	816.55	863.82	899.92
Net Current Assets	**-308.60**	**-325.10**	**15.63**	**16.32**	**114.53**
Net Deferred Tax	-4.70	-12.10	-12.10	-12.10	-12.10
Other Assets (Net of liabilities)	91.70	105.00	104.51	67.93	74.72
Total Assets	**1186.10**	**929.50**	**1119.46**	**1130.85**	**1262.91**

Key Financial Ratios

	FY13	FY14	FY15e	FY16e	FY17e
Growth Ratios					
Revenue (%)	12.3	8.3	9.5	14.8	17.8
EBIDTA (%)	13.9	-23.9	36.0	20.9	28.4
Net Profit (%)	8.2	-31.2	27.6	27.5	30.3
EPS (%)	-14.5	-31.4	28.8	26.4	30.3
Margins					
Operating Profit Margin (%)	8.4	7.9	10.5	11.5	13.0
Net Profit Margin (%)	9.9	6.2	7.2	8.0	8.9
Return					
ROCE (%)	13.7	14.6	16.5	19.8	23.5
RONW (%)	9.1	10.2	18.4	23.2	26.9
Valuations					
Market Cap / Sales	1.9	1.6	2.5	2.1	1.8
EV/EBIDTA	14.4	16.6	17.9	14.8	11.5
P/E	30.8	46.2	33.6	26.6	20.4
P/BV	4.3	4.9	6.3	6.2	5.5
Other Ratios					
Interest Coverage	32.3	139.3	160.2	218.1	315.4
Debt-Equity Ratio	-	-	-	-	-
Current Ratio	0.6	0.6	1.0	1.0	1.1
Turnover Ratios					
Fixed Asset Turnover	6.3	4.8	4.2	4.5	5.1
Total Asset Turnover	1.9	2.6	2.4	2.7	2.8
Debtors	10.4	9.6	8.7	7.7	8.3
WC Ratios					
Debtors	35.0	38.0	38.0	38.0	38.0
Creditors	93.0	92.0	92.0	92.0	92.0

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CD Equisearch Pvt. Ltd. 10, Vaswani Mansion, 2nd Floor, Dinshaw Wachha Road, Churchgate Mumbai – 400 020. Phone: +91(22) 2283 0652 / 0653, Fax +91 (22) 2283 2276, Email: research@cdequi.com Website: www.cdequi.com. CIN: U67120WB1995PTC071521