

21st May 2024

Department of Corporate Services
BSE Limited
1st floor, New Trading Ring
Rotunda Building, P J Towers
Dalal Street, Fort
Mumbai - 400 001
Scrip Code: 500710

The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, 5th floor,
Bandra-Kurla Complex
Bandra (E)
Mumbai – 400051
Symbol: AKZOINDIA

Dear Sir/Madam,

Sub: Investor Call Transcript

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the investor call conducted by the company on 17th May 2024 regarding the standalone and consolidated financial results of the Company for the quarter and year ended 31st March 2024.

This has been uploaded on the Company website also and can be accessed through the link:
<https://akzonobel.co.in/investors.php#im>

Thanking you.

Yours truly,
For Akzo Nobel India Limited

Rajiv L Jha
Company Secretary & Compliance Officer
Membership No. F5948

End: as above.

AkzoNobel

“Akzo Nobel India Limited
Q4 FY '24 Earnings Conference Call”
May 17, 2024

AkzoNobel

 ICICI Securities



MANAGEMENT: **MR. RAJIV RAJGOPAL – CHAIRMAN AND MANAGING DIRECTOR – AKZO NOBEL INDIA LIMITED**
MR. KRISHNA RALLAPALLI – CHIEF FINANCIAL OFFICER AND WHOLE TIME DIRECTOR – AKZO NOBEL INDIA LIMITED
MR. ROHIT G. TOTLA – WHOLE TIME DIRECTOR – AKZO NOBEL INDIA LIMITED
MR. RAJIV L. JHA – COMPANY SECRETARY AND COMPLIANCE OFFICER – AKZO NOBEL INDIA LIMITED

MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY '24 Earnings Conference Call of Akzo Nobel Limited, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you, and over to you, sir.

Manoj Menon: Hi, everyone. As always, it's an absolute pleasure and privilege to host the conference call of Akzo Nobel. We have the senior management from the company today, represented by Mr. Rajiv Rajgopal, Chairman and Managing Director; Mr. R Krishna, CFO and Whole-Time Director; and Mr. Rajiv Jha, Company Secretary and Compliance Officer.

Without much ado, over to Rajiv for the opening remarks, post which we'll open for Q&A. Over to you Sir.

Rajiv Rajgopal: Good afternoon to everyone. I just want to firstly thank all of you for taking your valuable time out and joining us for the investor call. As always, for me, the investor call is about giving an opportunity to all of you to ask. I'm here joined by the team today R. Krishna, who is the CFO of the company; Rajiv Jha, who is the Company Secretary. And for the first time, more as a participant and observer. We've got Rohit Totla, who is the Whole-Time Director, who is looking after the decorative paints business. So he has just come onto the Board. So really will sort -- be sort of just observing the proceedings, and it's a part of building talent for the future, pretty much what I went through when I joined the company in 2015 and '16 before I went to Dubai. Yes.

So really pleasure. What we want to do today is really to give time to all of you for the Q&A. We've loaded the presentation onto the website. So for those of you who are very curious too, I don't think this is about -- the investor call is about my presentation skill set. So I'm going to spare you the trouble of running through all the slides. But I'll just use the -- just talk about a few things which are contextually important for Akzo Nobel NV. As all of you know, our CEO, Greg has announced a new company purpose called Paint the Future.

And we used to have the company purpose, which was more around people planet paint, and we decided to use Paint the Future. As many of you may be aware, that India is one of the countries that also ran a pilot for Paint the Future, and we wanted to bring look at futuristic innovative solutions and how we could get digital in the way we go. And we partnered with NASSCOM, and we were very fortunate to have Debjani Ghosh, who is the President of NASSCOM and her team helped us in doing that entire work and we will, at a point in time, well relevant bring you some of the outcomes of it we've already shared it earlier.

So the company purpose is really moving to Paint the Future. This is about really creating the world of possibilities by looking at sustainability-driven innovation, superior quality and customer service, and most importantly, empowering our teams and collaborating for growth. I

think for Akzo Nobel, it's not just about innovation and our brands, but it's also about putting people and society first as we move ahead.

So that's really the first thing I really wanted to talk about. It's there in the deck, in the early slides. And how could we really move to some of the things which are likely to become big themes as we move forward, whether it's in terms of sustainable solutions, paints and coatings, the 2 verticals. How can we move to a completely renewable energy, 48% to 50% of our sites already use renewable energy. How can we move to 100% in India and put a flag there.

How do we really move to recycled plastic, not just in terms of what the government expects regulations, but be the thought leader, and that's what we are working on. And most importantly, in our CSR, how can we connect with communities to try and make sure that we are empowering more women. So, one of the projects that we are very proud of is a project called Indradhanush, where we've trained women painters and livelihoods in about 5 states. We started it small, today we've got about 1,000 - 2,000 women leader painters in our organization and some of them are, in fact, running their own stores.

So really, how can we move it? How can we get a large part of our portfolio life cycle assessment? And most importantly, personally for me, how can you create a culture of diversity and inclusiveness in this organization as you move forward. On sustainable solutions, we've done a lot, whether it's in terms of the HullCare products for our marine ships. As many of you know, today, we coat most of the Navy around South Asia, and we're proud of it. We've also done the INS Vikrant as all of you know, where we had a large share. We are also driving performance of electric vehicles using our powder coatings products. And in some of the world-class airports that you see, whether it's Delhi, Mumbai and Bangalore, it's all coated with Akzo Nobel.

And I'm really proud to be a part of the Bangalore new airport, where all the 3 products our powder coatings, decorative paints and our industrial coating, coil coating has been used and even to a small way, even our protective coatings. So really, that's what it is about. And we've got world-class products particularly brands like Sikkens and Lesonal, which give a lot of productivity and lowering energy costs in our workshops.

We've also signed in, as they call a brand ambassador, Rocking Star Yash, needs no introduction. The first celebrity who has really made it very big in just 2 movies across INR1,000 crores. Yash, as he is endorsing a brand called Weathershield Powerflexx. And as you would expect, the idea was to really make inroads into Southern markets - Karnataka and AP where we are present.

We've had a great start. And you've done a lot in terms of launch of whether it's in our premium portfolio or even in our projects portfolio as we move forward. For me, a moment of pride is really around saying that we won a trusted brand award -- and for the second time in a row, and that's to be really heartening because that's really what really this organization is all about.

So that's what I really wanted to cover. I think the financials are there for you. Krishna can just talk through the financials in a couple of lines, and then we'll open it for Q&A. Yes, Krishna?

Krishna R: Thanks, Rajiv. Good afternoon all the people who are on the call. And Q4 was as alluded by Rajiv, it's slightly difficult quarter from the industry per se. And we have seen the muted demand and prices corrections. On this backdrop, we could be able to – we managed to achieve over top line growth of 2% and which is also driven by the double-digit volume growth.

What has led to this is the focus and the discipline of execution. Post the pipeline conversion of the B2B businesses and the new customer wins, which has supported to continue with outgrown the market. Raw material prices have been soft during the quarter and which has also led to the margin expansion despite the price drops. Margins -- gross margins expanded by around 110 basis points. We continued our investments in the brand building and growth initiatives. At the same time, we are cognizant of the other cost control measures, which are non-growth related costs. And this has resulted in terms of improvement of profitability and the profit after tax was at INR108.8 crores, which is an increase of 14% on a year-on-year basis.

I think these are the highlights and our focus in mind in terms of the prudent work capital management, which is also resulting in the free cash flow improvement this is also resulting into higher payouts to the shareholders. That's a key summary of the last quarter and the full year, Rajiv?

Rajiv Rajgopal: Thank you, Krishna. So I think we've given you all our financial numbers. What really I'm proud of is our EPS for the year has moved -- if you look at 2021, we were at INR63.8 to INR73.58 to INR93.7. Our return on capital employed now is almost at 45%. And subject to shareholder approval, we've also announced an interim dividend now of the additional amount that we've given INR25. So making it INR75 and these for me is really to say that we really want to make sure that our investors are also reaping the benefits of the performance of the company.

So that's in a nutshell what we had. Manoj, over to you and the team to help us moderate the Q&A.

Moderator: Thank you very much. The first question is from the line of Lakshminarayanan K.G. from Tunga Investments. Please go ahead.

Lakshminarayanan K.G: Yes. A couple of questions. So first, I would take the projects business. I just want to understand what has been the revenue growth of the projects business? What has been the volume growth of the business?

Rajiv Rajgopal: See, we wouldn't be able to split it, but suffice to say, as I keep saying, our Projects business is growing double digit, both in volume and value.

Lakshminarayanan K.G: Got it. Got it. Because you mentioned that it's around 23%, 24% of your decorative business. So I just wanted to check whether that...

Rajiv Rajgopal: That's correct. It's about 20% now, Retail has also now done well. So it's about 20-odd percent of our decorative business.

Lakshminarayanan K.G: Is it fair to say that the Projects that -- you're number 3 in the industry?

Rajiv Rajgopal: Look, the Projects business, as you can imagine, because of the segments, there is no clear reporting in what it is. We would love to believe that we are also possibly number 2. But yes, we will take it with a little bit of humility and say, possibly a number 3 for sure.

Lakshminarayanan K.G: Got it. And what kind of growth this business would have? Is it like a sustainable thing because you had certain airports, which you signed up some of -- I think some of the Delhi project also you alluded. Is that something which can have like a double-digit growth in the next 3 to 5 years?

Rajiv Rajgopal: So India GDP is getting powered by public investments and public investments largely is around infrastructure. So as long as the GDP is getting powered by public investments, which is an inflection of the real growth -- underlying growth of the GDP in the country. I do believe it's here to stay. Because I believe that, look, the India of tomorrow is going to be from the -- very different from the India today. If you look at some of the airports, the railway stations, at least the photographs that are coming to all of us, are world class.

The fact is, over a period of time, we are fortunate to live in an era where we are seeing super fast trains, at least in some of the towns, cities. Of course, some of it high-rail, et cetera, is yet to come in, but at least the thinking is there. And to me, the thinking is there that tells you directionally that people will make it happen. So I think my belief is, yes, to answer your question, it will be sustained. So again, I cannot talk of outliers, but otherwise keeping things as they are. I do think that, yes, I think this is here to stay. The infrastructure is going to lead the growth of this country, even for the next 5, 6 years.

Lakshminarayanan K.G: Okay. So on the coatings business, what has been the revenue growth and volume growth of the business? Was it also in double digits?

Rajiv Rajgopal: The volume was double digit, the revenue was mid-single digit because our overall revenue growth you've seen is approximately 2.3%. And that's largely because of the price drop of 4.5% of the payment.

Lakshminarayanan K.G: No, I'm talking about the full year. I'm talking about the full year.

Rajiv Rajgopal: Okay. You're talking about the full year. The full year, yes. The answer is yes. Both were double digit.

Lakshminarayanan K.G: Got it. And in the Coatings business, what -- which are the key industries you're serving and do you see some kind of an improvement in any particular industry is doing? So for example, wind energy sector for -- I mean, do you want to call out some sectors that is actually doing well in the industry?

Rajiv Rajgopal: I think on all the growth horizon sectors of India, we are adequately partaking it, whether it is energy, wind, EV, solar in some way or the other, we are there infrastructure largely high-value infrastructure, in particular. Again, downstream oil. So, we are present in almost -- now as a company, we have far more ubiquitous in our offerings and in our customers than we were in the past, maybe even 5 years ago.

Lakshminarayanan K.G.: Got it. The reason I'm trying to understand this business because globally in the global conference call, it was mentioned that there's a huge difference between number 1 and number 2 in Coatings business and Akzo is number 1.

Rajiv Rajgopal: That's correct. Globally, we are number 1 because...

Lakshminarayanan K.G.: I mean how is the standing improving in India in the Coating business?

Rajiv Rajgopal: Yes, yes. So look, I don't want to -- for the various businesses, Coatings is just an aggregate. It's -- the 2 different businesses. And really for us, globally, we are number 1 in powder. Powder, as you know, paint is either liquid or powder, and we've got almost 30% market share with number 2 having a 15% market share. So I think that gives you the answer there globally. In India, of course, you remember that we participate in largely the premium segments and not in the mass segment. And that's the correction we are doing. For that, we needed capacity. Our plants are almost running full in powder.

And we are opening a new capacity in our Gwalior factory very soon. In fact, in a few months' time, the plant will be commissioned. So we will start getting very aggressive once the capacities are available. The same was true for our protective business. Marine business, we are doing remarkably well, not just because of India because many of these -- the fleets -- the shipping fleets are running all over the world and even including markets like Dubai, India, Singapore, et cetera, where we've got a lot.

There's only 1 part of the business, which we are globally a leader, which is yet to come in India is the aerospace which is very attractive business, hopefully, with the Delhi new airports coming in, et cetera, the MRO, which is the maintenance and repair will come in. And as a result, we should also partake in that business. We are very clear that we will build that business because we are globally working with both Boeing and Airbus to do it. We are, again, by far, the market leader there. So I think, look, in the next 4, 5 years, my view is that Akzo Nobel has a huge chance. Not just in the Coatings business, you'll see us fight tooth and nail on the paints business. We're going to use a lot of stuff in terms of our global thought leadership, et cetera, to make sure we win this market.

Lakshminarayanan K.G.: I have 1 or 2 questions in Decorative. Manoj,, can I go ahead?

Rajiv Rajgopal: I think we should just give others the chance. But sure, if you have 1 question, I'm more than happy to answer.

Lakshminarayanan K.G.: Okay. So in the Decorative business, I think a couple of weeks back, there is an interesting interview in CNBC as you mentioned that in 56 to 60 districts of India, you are number 1. And you also mentioned that in the premium segment, you're almost like 16% to 17% of the market and you are number 2. So just on that count, I want to understand in those country -- districts, you are number 1. What's the revenue contribution? So is these districts where you are number 1. They have about 80%, 90% of your Decorative business contribution.

Rajiv Rajgopal: No. If they were 80%, 90%, I would be overall number 3. Look, we don't want to get into that. The reason I made it is to just let you know that both historically and over a period of time, we've

been working on our brand distribution, et cetera, and we believe that we have a right to win. Now what gives you a license to a right to win is to say that, look, does the brand have presence which is significantly higher than your average market share in any geographies.

And when I joined this company and when we embarked on the journey as a team, we realized that there are many districts where you were either number 1 or number 2. And that's really to say that what creates that and what do we need to replicate there. Now the challenge in that is when you look at it, we realize that our presence across the segments in the Decorative paint business was different. In the mass market, for example, we are underrepresented as you are aware.

And the second is that over a period of time in the transition from ICI to Akzo, we lost the innovator tag. So our attempt has been to say that, look, how do we really start putting things back. And it is in that context, it is not a few 6 weeks ago. It was after the last investor call. And even I've been saying this, if you see my interviews ever since I took over the job, we have formula that is working. The question is how can you replicate it?

And this was obviously work done by a lot of good people. How can you replicate it because that gives you. Despite all the competition everywhere in those places, we still continue to be number 1 or number 2. So how do you really replicate that magic across? So really, that was the thought behind that question. And it suffices to say that in those markets, it's fairly representative. But at an aggregate level, yes, it is significantly higher than our market share. There are certain regions where we are actually double-digit market share. So -- and that gives you a sense of where I was coming from.

Moderator: The next question is from the line of Arko Pratim Pal from Sanjay Agarwal Broking Limited.

Arko Pratim Pal: My question is -- my first question is already answered by you, the volume growth. One question I have to say that Grasim paints is also joining the market. In Indian market, there is so many competitors. So therefore my question is what is your expectation for the present demand scenario? And what is your strategy for further growth?

Rajiv Rajgopal: Look, I think my strategy is something that I've been working on for a period of time, and that is to pivot around our brand, the quality of the product. We continue -- we want to continue to be the best in class. How do we demonstrate it, we've done it by launching a program called Dulux Assurance, which is a money-back guarantee, which we run in many of the key markets and now across Akzo Nobel, and bringing innovations into the market, which are a little ahead of time.

And continue to increase our reach, our distribution footprint in a very meaningful manner. While doing that, make sure that we are able to address our painter challenges, the issues. How do we get a larger scale with them and how do we really make sure that we've got a larger retailer footprint. And how do we really move seamlessly in a digital manner. So quite a lot to do, to be honest Pratim, but for me, I think the strategy seems to be working. If you take the last 2 years, full year results, we've just completed the last year results.

You can see we are in the top 2 group for the third year in a row. So I think it seems to suggest that some of the things that we are doing is working. At the same time, with all humility, I think there are certain things that we may need to tweak. That to make sure that we continue to sustain and do better. So that's what we will continue to do. And the reality is, look, I can only -- let me put it. I can only control what's within my control. There will be more players coming in, the bigger names coming in. I cannot get deflected to whether thinking whether Sachin Tendulkar is playing against me or Virat Kohli is playing against me, I can only improve my performance on what I do. So that's what I would say.

Arko Pratim Pal: When the sure -- definitely got the answer, I guess.

Rajiv Rajgopal: I am definitely privileged that so many players are coming in because it also gives us an opportunity to learn a lot of things. And also challenge some of the -- our own mindsets in being able to really see whether we can compete effectively in a hypercompetitive environment.

Arko Pratim Pal: I understood. My second question is, is there any change in raw material prices that may affect your operating profit margin in part of current..

Rajiv Rajgopal: Turning it over to Krishna. Krishna?

Krishna R: As far as the last quarter is concerned, raw material prices continued to be soft and which is also resulting -- this is also leading to the margin expansion. And what we are seeing yes, the trend is likely to be stable over a period of time, unless there is some amount of further disruption happens in anywhere in the world which impacts the supply chain.

Moderator: The next question is from the line of Umang Shah from Banyan Tree Advisors.

Umang Shah: So we see that the market leader in the Indian Decorative segment has increased its retail touch point significantly over the last 2 years. I think we understand that some part of it is also coming from using the distributor model as opposed to a dealer model, something which you started many, many years back. So just wanted to understand, going forward, will a significant part of our sales and distribution happen through our distributor channel? Or would we also expand dealer channel?

Rajiv Rajgopal: No, look, ultimately, distributors serve dealers. Today, a large part of our paints business is through distributor. And it's not to say that we don't want to -- we believe that for us, that's the right model. We reached a very high stage of maturity. And we are pretty happy the way the model is working. It's giving us terrific gains in terms of reach, lead time, being able to supply products at a faster pace than even in some places where the market leader is. That said, look, we are right now in the business of paints and coatings. We are not into other products. So our model will continue to remain as is, unless there is a distinct strategic need for a change.

Umang Shah: Sure, sir. Sir, and the second question -- yes. Okay. Sir, and the second question was you -- when I look at the numbers, Akzo has the highest payable days in the industry. Your creditor days. So any reason why that is the case?

Krishna R: It's based on the terms of trade, which we agreed with our suppliers and the combination of supplier payment terms, yes.

Umang Shah: Okay. Okay. Right, sir. And sir, and the last question would be, would it be of your industrial paints business, what percentage would be coming from auto?

Rajiv Rajgopal: So we don't divulge the number specifically by segment. That's something that we don't do. But suffice to say that -- as I said, there are 4 coatings businesses and auto is 1 of the larger businesses we have in that vertical.

Moderator: The next question is from the line of Sonal Minhas from Prescient Capital.

Sonal Minhas: As an end user as well as an investor, I think I just wanted to understand like in the decorative premium paint segment, there is a clear choice between -- amongst painters, between Asian Paints and your product. And I think I just wanted to understand more from a product details or chemistry perspective, that where is the gap in terms of quality of the product, if at all, between you and the number 1 player and you and the latter essentially. And what have you been doing to actually improve your product quality from a longer-term perspective? And is this kind of a sustainable differentiation edge that you versus let's say, Berger or somebody else you have versus the other players? So long question, I can split it, but just wanted to understand your take on that.

Rajiv Rajgopal: Look, our -- I think you partly answered by saying you and the market leader, so that takes out everybody else. But -- and that's the truth. So the reality is what we do is we do market research, where we look at people who've used Dulux and we split it into 3 types of users. So let's use our products on every purchase occasion. Remember that in paint a purchase occasion will come in 3 years, 2 years, depending on interior, exterior and usage. And then we look at non-core who are people who are using 50% of that purchase location in a span of 3 purchase cycles and 4, which is more than -- which is around 50% of the purchase.

You'll be thrilled to know that we've got the highest amount of solace users, which basically means that in our brands when consumers use us, and that's the human truth or the moment of truth. So the truth is that when people use our products because of the quality of products, it is people do tend to ask for it. And that's the reason that's been the *raison d'être* for this brand. That's the reason to exist as far as Dulux is concerned, not just on the walls but also in the hearts and minds of the consumers we serve.

The second part of your question, look, on the formulations, et cetera. Obviously, look, we do benchmarking versus our competitors. I don't want to speak ill of anybody I think let's be -- let's understand if there's a leader with the market share that the leader has, I have to give complete respect to every player in the industry. We are not here to criticize anyone. What we are here is to set a journey for ourselves and say, how can we be the best. It's not easy, but we believe that there are 3 things that we believe that we can be the best.

One, Dulux stands for best-in-class quality and not only Dulux any product of Akzo Nobel, whether it's International, Interpon Sikkens, all stand for best-in-class quality. Second is international. There are very few brands which can call itself truly international. If I were to ask

you, think about the beautiful cities in the world. You will come and tell cities like London, Singapore, Switzerland, what we've done is we've done a survey where we've seen in the top 15 cities, most beautiful cities of the world in almost 10 to 11, Dulux has the highest market share.

It's not coincidental that it's happening. Some of the places, even in places like Gurgoan, where our office is registered that we have the highest usage of DLF. So I think it's about the chemistry of our products. We've got fantastic engineers who do it, both globally and in the country. So kudos to them that they have been working on this over years. It's not something that has turned overnight.

And of course, there is a secret sauce that we are going to put in into the Indian market, which I can't tell you because it's like the formula of Coca-Cola. An appropriate time when we think it's right, we will discuss. But there are certain secret ingredients that go into a paint, which is -- which are also available for us to really up the ante and that's what we are doing. In an intense market, we believe that a better product is going to serve us longer, and that's what we are focused on.

Sonal Minhas: Got it. Second part of my question, sir, if I may just ask is that like-to-like for similar quality of the product, how much would you be selling at a discount or to, let's say, the market leader or as we speak? Just trying to get a ballpark essentially.

Rajiv Rajgopal: My problem is I sell at a premium to the market leader. That's the biggest challenge that I've been facing in many places.

Sonal Minhas: The same products we look?

Rajiv Rajgopal: Yes, similar products. If you look at across categories, we've been the highest priced portfolio. That's been the biggest challenge for us. And one of the things that we've been trying to do is to come close to the market leader on pricing. Now what happens in the market is slightly different. There's a concept called loss leader. It basically means that a leader passes on his profitability to do it.

And that happens because the velocity of the brand is not commensurate with the market leaders of date. Now those are very old cases in our brand. We are not a wholesale brand. We are a very retail-led brand over the years. So it really doesn't matter for us. So to answer your question, the challenges, both in perception and in reality, we are seen as a bit of premium even in categories which are mass and economy. So I think that's the bigger challenge to be honest.

Moderator: We have a text question from the line of Dhiraj Dave from Samvad Financial Services. How many dealer we added in Q4 and total dealer as on 31st March 2024?

Rajiv Rajgopal: See, look, we don't -- let me put it -- our number of dealers are not just count of dealers. Akzo Nobel has got very stringent measures when we look at dealer additions in terms of saying there's a certain revenue say INR30,000, INR50,000 revenue per outlet to really look at them in terms of retained outlets, yes. So we -- our definitions are far more stringent so it's not like-to-like. But suffice to say that we add anywhere close to about 3,000 outlets in a year, yes, and there's a certain fall-through.

We also do a lot of refurbishment of our existing tinting machines, not just add new machines, but we also do it and move the refurbishment there. Our focus, as I mentioned earlier, has been to really drive penetration into the next level of towns. They are very strong in Tier 1, Tier 2, moving into Tier 3, Tier 4, the team embarked in 20 -- in a very meaningful way in 2017, '18, but really started in 2019, unfortunately got stuck by COVID and we really pulled it through in '21 to now. So that's what we are focused on.

To me, also remember that we are not in categories where count of dealer can increase by certain product offerings, e.g., we are yet to enter construction chemicals, tile adhesives, grouts, et cetera. We are getting ready for that. And believe you and me when we get ready our products are going to be world class, and we believe we'll shift. We're already growing in waterproofing more than 30% -- 25% to 30% year-on-year. So -- and the reason we do that is not because we have the best advertising or the most advertised bank, of course, advertising is good, but because we've got great quality products that consumers buy again and again.

Yes. So that will give you a direction of what I'm trying to say. As we start getting into businesses which are more where you can add outlets to make a difference. you would start seeing it. But for now, we are focused on the paints business and really getting into the adjacencies of the paints business. And for us, meaningful outlet is more valuable than any outlet. What is -- when I say meaningful, what is the turnover of the outlet or what is the volume that the outlet does with us at a monthly level or annual level.

Moderator: The next question is from the line of Amit Purohit from Elara Capital who says, sir, can you please provide insights into your distribution reach, how this has grown in FY '24 in terms of tinting machine and outlet reach. What is the share of premium? Sorry. Please, Go ahead.

Rajiv Rajgopal: No, go ahead.

Moderator: What is the share in the premium segment of the company?

Rajiv Rajgopal: Yes. So premium I have already said, I think somebody already are 16% to 17%. Outlets also got us. It's 20,000 plus, 21,500, 22,000. Again, these numbers don't -- are not meaningful unless they understand contextually because we've got a scientific way of measuring it, not just in India, but it's a global sort of definition. Again, we look at what is the throughput outlet we get, what is in a tinting machine, what's the drop size we get.

We look at productivity of a tinting machine in an outlet, so our measures are a little more stricter and more stringent than it is globally, which is the reason I also want to tell all of you if we've not observed, that's the reason why our operating working capital is the best in the industry. I mean, you look at in the paint industry and look at us, it, I'm saying there's such a huge difference in the way Akzo Nobel used to operate 10 years ago and today. It's not just a reflection of our distributor model. It's also a reflection of the way we run the business.

So to me, it's about effectiveness is more important than just numbers. It's about making sure that we are being meaningful, and we are able to provide the entire assortment in a more meaningful manner. So 20,000-plus outlets. And we obviously are trying to sharpen it. Our endeavours to in the next 2, 3 years to move to 30,000. We believe that with all the portfolio

additions that we are adding in the next year or so, we will start – we are well on that journey. We've already crossed 5,000-odd towns. We will start getting meaningful to our 8,000-town journey. I think that's really the split in which we are working on distribution.

Moderator: We have a question from the line of Mr. Saket Kapoor from Kapoor & Co.

Saket Kapoor: Sir, my question is regarding capital working progress. If you could kindly explain where this money has already been spent.

Moderator: Sorry to interrupt, sir. May I request that you use your handsets. There's a slight disturbance from your line, Mr. Kapoor.

Saket Kapoor: Sir, I was alluding to the capital work in progress of INR 119 crores. What will you attribute this to? And when will this money get capitalized?

Krishna R: Saket, thanks for the question. We have explained that we are undergoing capacity expansion trend for the powder coatings plant in Gwalior, which is predominantly the capital working progress. We do expect the commercial capital and the commercialization, commercial production commitment somewhere in the July, end June and July campaign, yes.

Saket Kapoor: Okay. And what kind of volume increase, sir, are we expecting for the next financial year?

Rajiv Rajgopal: Double digits.

Saket Kapoor: Okay. And double-digit means, 10, it starts from 10.

Rajiv Rajgopal: I can give you a number, but the sanctity of the number is a function of a lot of variables. Problem is after that nobody looks at the assumption of variables. People look at the number. So to me, it's like saying, what is the colour of the sky today, what I see what you see will be different. But we've given a range of around 12%, yes.

Saket Kapoor: 12% should be the volume growth.

Rajiv Rajgopal: Volume growth and the revenue growth will lag volume growth simply because for the rest of the 9 months, there is still about a 3% carry forward of the price drop, right, 3% to 4% that we talked about. So that's -- you can easily pull the maths. With the commodity prices now firming up, we don't expect any further price drops. But yes, let's be clear, we will defend our market position. Akzo Nobel is very clear. Yes, we will defend our market position. We believe if you look at the EBIT margins, return on sales, right, we are number 2 by far in the industry.

And for the market size, share we have, you'd realize that very few companies, in fact, there'll be very few companies worldwide with this market share who have that return on sales. Clearly, tells you the quality of the business we run and the fantastic work which is happening between various functions, etcetera, that we get to play. And this was deliberately planned because in a hypercompetitive environment, I'm fine to lose 1% there, but to make sure we continue to gain top line in a manner which is sustainable. So that's what the focus is.

Saket Kapoor: Right, sir. And sir, I missed your earlier commentary. On the growth prospect, if you could just allude once again, what -- how are we seeing the current financial year? And then on the valuation part, sir, when we look at the peers, they command a significant premium toward our entity, although all of them some are aligned in some way or the other, but you can look at the valuations the top 2 enjoys, and discount at which Akzo Nobel trades, I'm talking about the market cap currently, which is more of a significant importance to your investors and the analyst community. So what's the thought process of the management in terms of that. And the growth which we are taking into account the current business sentiment?

Rajiv Rajgopal: See the growth very clearly, I think, between all of us, me, Krishna, Rohit, Rajiv, we're very clear that we want to be in the top 2 in growth. So that answers your growth question. In terms of the price value, let's be clear, what we control as a team is our performance. After that, I leave it to people like ourselves to decide what's the best value. We've shown you what the earnings per share is over the 3 years. It's there in the investor deck, we've moved significantly.

I don't think company -- and look at our return on capital employed, I don't know how the companies of our size, shape, have a 40% return on capital employed. So that, I think, is a testimony of what we bring in you've seen -- you're seeing cash in our books. You've seen the dividends we give. We are giving sustainable dividends. We are giving it in a meaningful manner.

There were a lot of questions on why I think when I joined the company and some of you have educated me during the journey, whether there is adequate one of the thoughts was when I joined the company and some investors are on the call, they've been very frank to say the biggest problem in Akzo Nobel is leadership changes. I've been now running this company for a very long period of time. And my journey is to also make sure that the next group that takes talent comes to the floor and get -- we get the right talent to run this organization going forward.

Because this organization is not the organization that I joined, which is a INR2,000 crores company with a INR150 crores PAT. Today, we are talking about being INR4,000 crores company with a INR420 crores PAT. And we -- our desire is to move significantly. We are not here to give numbers. We are not here to paint a vision which we cannot achieve. What we believe is, look, I think this comes through a lot of hard work. We come to putting brick by brick.

I've learned that there are a couple of times when we've had huge challenges particularly during Covid because we followed and complied with every rule. We are top class in governance. And I think the people sitting around this table drive in the fact that we have world-class on governance. We do not allow any compromise on ethics, values and governance.

Saket Kapoor: A very concluding remark.

Rajiv Rajgopal: Concluding remark, look, so I would only -- sorry?

Saket Kapoor: Yes, first, you complete then I have 1 concluding question.

Rajiv Rajgopal: Okay, please go ahead. You please ask your question.

Saket Kapoor: Sir, when we look at your other expenses Q-on-Q, that has shown a dip, whereas year-on-year, that has increased. So what should -- what are the core element of this and what should be mentioning in when we mention our number in terms of -- as a percentage of revenue, what constituted?

Krishna R: That's a good question and a detailed observation of financials. As I have explained previously, the focus is in terms of the brand building and how do we make our brands more relevant and present in the market space and also which will unlock the long-term growth prospect. That's where we are spending and which is also yielding the growth and the results. Yes.

Rajiv Rajgopal: So certain elements of costs which have gone up on absolute are around A&P, FTE, okay? Because what we're also doing is we are now entering what are not traditionally paint outlets from a paints business perspective. We are going to -- we are in the process of reorganizing ourselves a bit, not huge cost, but maybe a onetime to really make sure that we are able to seize opportunities.

And also, let's be honest, on the flip side, how we are containing that cost is by becoming far more productive through value creation programs, driving -- sweating our assets, both tinting machines as well as spreading of factories. Today, the amount of automation we have in our factories, we are actually virtually running 1.5, 1, 1.5 shifts and creating capacity for the future. So we are into building world-class stuff, putting a digital infrastructure for us some of which is we do. I hope that answers the question.

Saket Kapoor: Yes, sir. And if I permit to ask 1 more. On the cost of material consumed, as you are mentioning that the raw material prices are hardening. And I think so we are referring to the crude derivative and crude has also been in a consistent band of INR78 to INR85. So what are you pencilling in, in terms of sustaining your margins with respect to your cost of material going ahead. And on the value proposition also, sir, I think so in the branding aspect the AP cost in all as a percentage of sales need to spend to create that market size and market awareness. But how are you seeing the same going forward for this year as a percentage of your sales? So both the question on the outlook on the raw material and the expenses on advertisement?

Rajiv Rajgopal: So firstly, as far as the expenses are concerned. Look, brand building is going to continue. Our problem is not in a balance. A problem is in conversion. So our problem is right at the end of the funnel, where when people start switching to brands, from consideration to purchase.

That's the problem, and that's what we are trying to address. The second to your question on material prices, look, we've been through much harder times on raw materials. I think if there's 1 example, 2021 would also tell you that we took the right decisions as far as the raw material costs were concerned. When the industry and many people thought that we had lost our brains. We believe that, look, we are working on certain things to make sure that we are able to compete a hypercompetitive inflationary environment if required.

At this time, we don't see it. I don't want to exaggerate the situation as if it was going to happen. We believe that this situation, the plus/minus will not be huge. Of course, there are variables which are outside our control. But other than that, which will impact everyone. But other than

that, there is nothing significantly that we need to. Of course, there are certain projects which we do, which are a little under embargo. I don't think it's appropriate for me to speak on our investor call on that. Thank you.

Saket Kapoor: Thank you, sir, for all the elaborate answers and we hope for future interactions again sir.

Rajiv Rajgopal: Thank you.

Moderator: The next question is from the line of Lakshminarayanan K.G. from Tunga Investments.

Lakshminarayanan K.G: Sir I feedback because we talked about market capitalization just earlier, my belief is that when it comes to media interviews, you are on the strong front foot discussing. But in the investor presentation, we are extremely modest. For example, we have done extremely well in terms of our portfolio improvement. We have done extremely good in terms of our distribution both in terms of number of distributors, tinting machines, the districts you have actually gone through from 1,500 towns to almost 5,000 plus. I wish you can actually put these things in 1 slide so that as investors, we also get to know what has been the increase in all vectors. So that's just 1 feedback for you to consider.

Rajiv Rajgopal: No, thank you, Lakshmi. Thank you. But I love a cricketer who ones -- whom I admire who told me that the bat does the talking. When the bat does the talking, you don't need to really talk about the performance. And for me, really for the investor community, it's not about a quarter. It's not even about a year. It's about sustained improved performance of the metric. And Lakshmi, let me tell you when I joined and took over the role.

And many of your colleagues on the call. I can tell you with hand on heart, perhaps, my heart was raising 5x because the sort of questions were your predecessors have all come and made promises and left. So it's even important in leadership to be able to have a narrative which is consistent and not overpromise, but over-deliver? Hopefully, with all your support and everyone's blessings, we should be on that. So it's on the television, it's slightly different. Media sound bites, people start getting aggressive.

So you want to make sure that your voice is also heard. And again, it's not from a perspective, it's because that's a wider reach medium. Where everybody hears. And the idea is not to communicate in terms of what we do, but also who we are. So it's also share of voice as they call it. It's also about saying how we run the company. If you've seen over the last 5, 6 years and even over the last 2, 3 years, our endeavour has been to bring you the reality to exactly tell you where we are.

We have never given volume growth. We've started doing that because we realized that necessity. The reason is because we are making a shift from value growth to -- price-led growth to volume growth in India. And we have -- the assurance we want to give to you and all the investors is we are here to stay. We are not bothered about what people write about us. We are here to stay. We believe we've got the ingredients. We've got the people. And more importantly, we've got the mindset. And that's not my commitment to you. It's my commitment to Akzo Nobel.

Lakshminarayanan K.G: Got it. Sir, another question from a slightly different angle from a supply chain point of view. I understand that paints is all about supply chain and lost sale is like a loss forever. So in the last 1, 2 years, how you have actually improved your supply chain in terms of getting the right product because I feedback which I hear from some of the painters I anecdotally check is that okay, we don't get the entire -- X is there, Y is not there. We don't get all the 3 kinds of stuff from Akzo Nobel. So I don't know whether it's anecdotal or representative. Just want to understand from a supply chain point of view, how do we have ensured that the right quantity of paint is there in the right distribution and the right SKUs?

Rajiv Rajgopal: Good question, very good Yes. So Lakshmi, it's like this. See, when we embarked on the distributor journey in 2013, '14, we had our hands in amount because the world told us we will not succeed. Fast forward 10 years later, 2024. We've got a robust business where about 160 of these distributors and our partners actually run this business and have been running it with a fantastic work which has been done by the team led by Rohit, which is why he's also here now on the Board.

And it's -- I think we've got that model right. I think what we've not been able to do is to get all the other businesses into the outage of some of our competitors have done. Also in terms of range availability in certain markets where we are structurally weak. Like Andhra, we are structurally weak. I get this myself from customers. What -- how we are trying to address it is to identify those gaps and try and make sure that we are able to have a couple of large dealers converted in those areas so that we are quickly able to as and when we get it. We do that with lightning speed today.

We were earlier not doing it. And we are planning to look at embarking on certain programs, including on need generation, hopefully a more digitized way of working, which will enable us to do that in a far more structural manner. So that's one. Second is, we have embarked on a journey on distributor to look at replenishment model, where what an outlet sells today, the distributor is able to catch through a replenishment model, which is FMCG done. And that will also enable us to be able to exactly know which markets, what product is required, and we are able to get it immediately at head office instantly.

We look at today technology permits us to look at what is the cut order on a daily basis, but it comes with the lag. The idea is how do we really get it on time so that we are able to address it in a structural manner. Having said all this, it's not easy. Our challenge has also been having the right portfolio at the right price point and also the fact that in certain structural markets where we've not been strong, to be meaningful to the outlet to able to address this issue. So those are challenges we are working on, Lakshmi, and we will cross it.

The reason I'm confident is because we move the needle significantly over the last decade. And I have every reason to believe when the hard work has got done, the incremental effort that is now required is much lesser than the initial work that was required in setting this up. I hope you understand.

Lakshminarayanan K.G: Yes. Bookkeeping question. So in terms of your freight cost, last year, it was around INR152 crores or so. I just want to understand what is it number now. And in terms of ad spend last year,

last year, I mean FY '23, it was around INR92 crores. What is the value in FY '24? And how do you think, given that you are actually embarking on a brand ambassador, et cetera, how you think this would actually pan out in the next couple of years?

Krishna R: Thanks for the question. We will be publishing all the final details in the annual report. Please hold on some time. I know I'm not answering you right now, but we will share all the details which is required as per the disclosure.

Rajiv Rajgopal: And Lakshmi, drop an email to us we'll send you the report. The reason is because, obviously, there are certain things which we right now believe is still in the realm of confidentiality. Yes. And suffice to say, at a very high level, look, we are looking at least a 10% to 15% increase in A&P. Again, see, these are functions of what market or the market behaves. So it's very difficult to predict.

I mean, none of us would have predicted early last year that the industry would have a price drop of 4%, 4.5% between December and January. That's what happened. So sometimes market forces also necessitates you to take action. The fact that we signed Yash is also because, obviously, now the industry is getting it so really, you want to make sure your brand stands out and you wanted to use an ambassador who really stands out. And we believe -- obviously, Yash, if you've seen his following, it's mind-boggling. So we -- that's the journey we have embarked and we'll continue on that journey, and we'll answer your specific questions, as Krishna said, as soon as the annual report comes in.

Lakshminarayanan K.G: The supply chain, in terms of sales laws or product assortment, not there, from a quantifying perspective, how we have improved if you index 100, we had -- just want to get a sense of how you're improving. I'm sure we have improved. Just want to understand that.

Rajiv Rajgopal: No, look, we moved the journey significantly. We see if I look at 2014 and worthy you can help. If you were on a scale of about 75 to 80, we moved -- we are not -- nowhere close to 100, but I would say we are closer to the 90s now. But we've still got a journey to transit. We will get on to that journey as we move forward.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor: Sir, I have a small question on margin expansion or the margin outlook as you have sounded cautionary on the RM, and again, we need to improve our ad spend to gain market share. So what's the trajectory for the margin outlook for the current year on the 1 where we exited the Q4, what can we expect going ahead? And what factors would rather influence your margin trajectory going ahead?

Krishna R: Thanks, Saket. One of the disclaimer figure is that we will not give the forward-looking guidance here. And of course, we do expect our margins to be stable and then we ensure our growth is profitable by way of various means and measures like mix improvement and innovations in the product value.

Rajiv Rajgopal: I have addressed in the earlier question, Saket, because we -- I said that we will hold our margins, but our focus is really how do we really play -- consolidate our market position.

Saket Kapoor: Right, sir. And on the competition part, sir, with the -- with the new players totally coming up with a huge size, what kind of volume pressure, do you think you can expect when they ramp up their capacity going ahead? I think sir 2 players are now particularly becoming very active. And the bigger 1 Grasim, which will be contemplating, I think so coming up with huge capacity. And they have also drawn big plans. So what's the thought process of Akzo Nobel going ahead in terms of this intent of new competitors?

Rajiv Rajgopal: Look, I think it's very difficult to hypothesize what's going to happen. As and when players come in, we will be in a more -- all this is factored in the growth that we've indicated already for the full year in the questions already asked, Saket. These are already factored. If there are any discontinuity on pricing, et cetera, that's there, we will look into it. As I said, I want to repeat that our endeavour is to consolidate and grow our market position in India.

Manoj Menon: Operator, in the interest of time, we've already told the audience, management has kind of hard stop here.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference over to the management for closing comments.

Rajiv Rajgopal: So thank you, really enjoyed the interaction with all of you. Lakshmi, your point is taken. This is not to say that there are 2 different personalities on the television set and the investor call. We are more than happy to share with you. We have a fairly transparent company. But we also believe that, look, ultimately, what we say we deliver. I think that's more important. And if you go back to 2, 3 years ago and you -- I think you should hold people for the promises they make.

I have been very clear in my narrative, even if you go to some of the stakeholders, including on a lighter way to a stakeholder, I said you will not get this share price at this price again. And the share price, if I remember, the company was 1,800 then. It's true. It's not happened again. So my endeavour -- as our team endeavour is to say that we give you greater value. We make sure that you sleep well if you're invested in our company.

We believe that the power of Akzo Nobel, with the leadership of Greg, I am certain and the dynamism and his thought leadership that he brings into the company I'm certain this company will grow great heights and under his leadership, each of us will make sure that his vision of what India should be, will be delivered. It's -- and I'm delighted because it's in line with what my vision for India is. So thank you very much. Thank you for taking time on a very busy schedule. I do understand your multiple calls to attend. We really appreciate each of you for your time. Good luck. All the best. Stay safe. Thank you.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Rajiv Rajgopal: Thank you. Thank you so much.