

30 May 2023

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 23 May 2023 regarding the financial results for the quarter and year ended 31 March, 2023.

This has been uploaded on the Company website also and can be accessed from following link:

<https://akzonobel.co.in/investors.php#im>

Yours Faithfully,
For Akzo Nobel India Limited

 Harshi Rastogi
Company Secretary
Membership#A13642

Encl: as above.

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AkzoNobel

“AkzoNobel India Limited
Q4 FY '23 Earnings Conference Call”
May 23, 2023

AkzoNobel

 **ICICI Securities**



MANAGEMENT: **MR. RAJIV RAJGOPAL – MANAGING DIRECTOR – AKZONOBEL INDIA LIMITED**
MR. KRISHNA R – CHIEF FINANCIAL OFFICER AND WHOLE TIME DIRECTOR – AKZONOBEL INDIA LIMITED
MRS. HARSHI RASTOGI – COMPANY SECRETARY AND COMPLIANCE OFFICER – AKZONOBEL INDIA LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the AkzoNobel India Q4 FY '23 Earnings Webinar, 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. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

Manoj Menon: Hi, everyone. It's a wonderful morning, afternoon, evening, depending on the part of the world you're joining this call from. Representing ICICI Securities, this is Manoj Menon here. I cover consumer sector here.

It's our absolute pleasure to host the -- as usual, the quarterly results conference call of Akzo Nobel India. It is Q4 FY '23 results webinar today the management is represented by Mr. Rajiv Rajgopal, Managing Director; Mr. Krishna R., Chief Financial Officer and Whole Time Director; and Ms. Harshi Rastogi, Chief Compliance Officer. As usual, we'll have a brief presentation by the team, the management team, post which we'll open up the floor for Q&A.

Rajiv, Krishna, Harshi, over to you, sir.

Rajiv Rajgopal: Thank you. So good evening to all our investors. Delighted to be here for the quarter 4 and the full year results. We've just announced our results of Board meeting and delighted to be here along with Krishna and Harshi to walk you through the numbers.

Harshi, could we up the slides, please? Yes, can you see the slides now? Anirudh, can you -- Manoj, can you see it, please? Lovely. Okay. So the first slide is really the visit of our global CEO, Greg Poux-Guillaume, who had visited India just a few months back. And you are seeing him along with other senior members of the region and India to sort of walk him through the Thane factory, right? So that's really what the video -- this frame is about, the photo is about, right?

Really what you can see is the fact that Greg had come to India in a 2-day or 3-day visit with India, with meeting customers, meeting different markets. And really, this entire story is about saying how we can invest in India. What really delights me is the fact we've got a CEO who is absolutely delighted, and he is really wanting to drive India to the next level.

So quickly on the slides. For the benefit of those people who joined for the first time, a little about us. Akzo Nobel India is a listed entity, part of the Akzo Nobel N.V. Group. We've got about 1,500 employees, 5 offices. We've got 5 manufacturing sites. And we are doing a lot of work on capacity augmentation as we see and expansion plans to make sure that we are seen as a serious player in the paint industry.

We are focused on scaling our distribution, both online and off-line channels. And really, our intent is to try and see how we can increase our coverage. When I joined this company in 2020, we were available in less than 2,000 towns. As of today, we are almost in 5,000 towns. And really, our intent is to see that how we really start becoming a very significant player as we move forward, right?

We today cover almost about 20,000 paint retailers and about 4,000 B2B customers. We've got a world-class innovation centre. We support the global automotive and specialty colleagues who are working in Bangalore. And we have also inaugurated 2 years ago what we call the Low-cost Innovation Centre in Thane R&D. What is Low-cost Innovation Centre? To create differentiated products that we'll start bringing to South India, South Asia, Southeast Asia, markets like that, where we will have innovations, where we can start differentiating, and also focus on driving sustainability as we start moving forward, right?

On the business environment, I think all of us sort of read the same newspapers [inaudible 0:03:57]. You've seen that as far as the world is concerned, India continues to be the bright spot. So I must say that, obviously, if I want to look at the predictions or projections about a year ago for the year right now, it's slightly contrasted and that we are seeing it. However, suffice to say that we are seeing a good uptick.

There is a softening of raw material prices, which all goes well as we move ahead. But again, there is still a lot of volatility and uncertainty given the sort of gloom that exists because of the Ukraine war, etcetera. Yes, FX volatilities continue to persist. As all of you know, that currency, besides the entire crude oil price, plays a huge role in designing our pricing.

To quickly remind all of us on the strategic drivers so that in the AGM I will cover in terms of what next. Yes, really, we've been focusing around six pillars. Focus on brand building. Maybe we need to invest more. We'll start seeing that as we start moving there, as I've told you, this is the outlook, significantly over a period from now to 2026.

Yes, so looking downward, in the right, focus on the core, how you create differentiation, how we win in adjacencies, likely to see the work [inaudible 0:05:17] Yes. And if I could request all the participants to be on mute, please. After the presentation, we'll open it up.

On distribution, we've been sort of looking at both online and off-line. Off-line, as I mentioned to you, we will increase our footprint. Well, the good news is, in the first 5 months of the year, our distribution, we've almost covered the number of retailers we did the whole of last year. It is the first time we've achieved this feat, so it's a fantastic achievement, augurs very well as we enter into the season, which I believe will be quite a swing this year compared to the prior years because of the later Diwali.

We're also seeing a good build up on our e-commerce platform, digitization. As all of you've seen, we are working on global CRM tools, IoT in our manufacturing sites and also digital-first approach for consumers and printers in order to create readiness as more players get into the market.

Yes, initiatives on value creation to continue our double-digit profitability. You've seen the results of the full year. Yes, our profit -- EBIT margins have been significantly ahead. And on people, we are a people business, so we really imbibe people-centric culture. One of the things that I'm committed to has been to move a lot of my team members into larger roles, both in Akzo Nobel and also make sure that people are doing roles they get invested in. That's the true value

what we imbibe, individuals who work in this team. And innovation, really how do we bring the power of science to the magic of paint, yes.

Quickly on the quarter gone by before I -- Krishna runs through the financials, and I'll run through it. Yes, so we had a good quarter, double-digit growth, almost 10% growth. The B2B arena saw a little sharper growth, nevertheless, both Paints and Coatings together delivered 10% across different businesses, likely differently. And in the retail business, we saw faster growth this time in the smaller towns than in the large urban towns. Premium has grown significantly high double digit for us. Yes, we had some challenges in some of the economy segments which we're addressing as we move forward.

Marine & Protective, phenomenal orders from coastal and navy. And also oil, gas and infrastructure segments have done well. Power coatings, we've seen strong growth in automotive GTC segments and Interpon Stone Effect range just got launched.

In our Industrial Coatings, yes, we've seen coil which was impacted this quarter because of a high base and also lower exports, largely Sri Lanka and a little bit of APAC. Packaging segment was driven by our consumer FCG and ink business. And in automotive, we've seen premium growth. And the OEMs accelerated, as you've seen the OEM results, but we have a subdued commercial vehicle over the quarter. Yes, so that's really on it.

On the next slide, you can see some of the launches. I've talked about it in many of the -- sort of each quarter results, some of our growth drivers. As we speak, we are just launching our PU Satin products. We are bringing a lot of products between now and Diwali, which I mentioned to you.

We've also seen our DIY products, which has started getting a good traction on Amazon, right? And we obviously partnered with [inaudible 0:08:30], as you know. And you can see some of the work that we did. Proud of the fact that we are associated with Vande Bharat. We are associated with the Statue of Unity. We are associated with the entire coating of the warship that sort of were designed, right, INS Vikrant, right, where we play a role. It just goes to show that - - and we are also coating -- we are also a large player in coating essential stuff, right?

So clearly, I think our products are world-class, and that's been the power of it, of why we believe we can stay ahead. And we also start now playing for segments where growth is coming in, yes. So I'll hand it over to Krishna and then come back. So Krishna, just sort of high level before I hand it over to you. So revenue saw 10% growth and EBIT margin growth of 32% and a PAT growth of 28%.

Krishna, why don't you answer?

Rallapalli Krishna:

Thanks, Rajiv. The whole performance centres [inaudible 0:09:36] strong order. We reported around INR951.4 crores for the quarter as top line, which is 10% year-on-year -- okay. So 10% Y-o-Y growth is coming from robust demand in both the B2B and -- B2B segments and Paints and Coatings. Our gross margin for the quarter was the highest ever, attributed to our timely pricing actions which we took earlier last year and supported by the RM prices, which have seen a downward trend.

And this, coupled with our controls on the cost -- judicious cost management and the controls on that, translated into 32% EBIT growth. Both GM percentage and EBIT percentage improved on a year-on-year as well as sequential. Profit after tax was at INR95.4 crores, which is up by around 28%. If I exclude the last year exceptional income of INR2 crores in the Q4 of '21-'22, the PAT growth would have been around 31%.

Coming to the full year performance, it was a stellar year for us with record performance in absolute terms across the revenue, gross margin and EBIT. Strategic drivers, as alluded by Rajiv earlier, enabled us to bring strong product portfolio, increase in reach and improved efficiencies. Decorative Paints growth largely from many launches this year as well as the projects business. Coatings growth has been -- was a key beneficiary of growth in the core sector industries and the auto sector.

While RM price softening started earlier part of this year, earlier part of the calendar year, benefits on margins was slow to come. Nonetheless, we continue to maintain a double-digit profit level of 11.6%. PAT growth for the year was around 16%. However, if I exclude last year exceptional items of, what, around -- tax benefit of INR16.8 crores, like-to-like basis, PAT growth was at 24%.

Moving to the next slide. Happy to report that our OWC as a percentage of revenue remains one of the strongest in the industry and reducing from 10% in March '22 to 6.8% in March '23. Our focus remain on the cash and the improvement in the cash generation cycles. And with this cash generation cycle, under where we see controls, we were able to -- or we ended the year with a liquidity of around INR314 crores.

Our record performance has also translated into the stronger shareholder returns. For the current year, the final dividend of INR 40 per share was proposed, which aggregates to the total dividend of INR65 per share.

Rajiv Rajgopal:

Yes. So first and foremost, big thank you to the entire team for a fantastic performance. But clearly, one of the strongest years we've had and laying the foundation for what I call is going to be establishing us as not just a serious player or serious contender but making sure that all our investors understand the sort of work that we are putting in ahead of the serious competition that we see ahead.

On ESG, again, another area that we take with great seriousness and pride. We've already moved to 10% recycled plastics in containers, ahead of the PWM Rules. We are progressing towards 50% renewable. And we are trying to get our targets by 2025, 34% currently. We are already zero liquid discharge and zero waste to landfill.

We are -- as you all know, we are certified as a Great Place to Work. We've come among the top manufacturing companies. We've also worked very closely in our CSR and great work being done by the team there, led by Harshi. 3,700-plus youth and painters trained in 2022. We provide education for 6,000-plus children. It's something that I'm really passionate about, which is not mentioned on the slide, is the fact that we are empowering women through a project that we've talked about or in the news, where we've really started moving into three states where we started

providing livelihood to women through our paints and painting opportunity services, right? We've been conferred and commended for significant achievement in CSR at the CII-ITC Sustainability Award 2022. And you can see Harshi, along with the colleague, receiving the award from Mr. Nitin Gadkari.

In terms of governance, we pride ourselves of having the highest standards of corporate governance. For those of you who've seen our results today, and you see some of the initiatives, you clearly see that we will -- and auditor that we have, we eventually bring it in a very transparent manner. We are -- I think our auditors also love that.

We challenge ourselves in terms of saying how we're building a safer model and how we're creating stronger governance for making sure the organization is sustainable. So 50% we've got independent directors, 100% independent audit committee, and we are governed by the AkzoNobel Code of Conduct, which in my view is gold standard, right?

So with this, I would just like to conclude. But before I conclude, I also would like to take this opportunity to give a big thank you to Harshi Rastogi. Harshi Rastogi has been our Company Secretary, as all of you must have read. She has a personal ambition of moving back into the finance area and also has got a fantastic opportunity. And as we believe that we like individuals to grow and fly, sad for us, yes, but we are right now looking at a successor. And we will try and find, make sure that we find someone to fill Harshi's shoes, though they're very big. So a big thank you, Harshi, for all the wonderful work that you have done.

And really happy to take any questions that all of you will have now. So back to you for the Q&A.

Moderator: Moderator Instruction.

Manoj Menon: Faizan, Manoj here. I'll take a couple of questions which we have in text option. Team, there's a question from Mr. Hemant Shah. How was the demand in T1, T2, T3 towns in Q4?

Rajiv Rajgopal: Yes. So as I mentioned to you, Manoj, if you look at for us this time, normally, our growth historically for the full year, the first 2, 3 quarters are very strong in T1, T2. But in the quarter, that's gone by, the quarter 4, with the results that have been declared, we saw a sharper demand come also most likely because of the base effect coming from the T3, T4, T5 towns. Manoj, have I answered your question?

Moderator: Sir, you're audible. Manoj, sir, we are not able to hear you.

Manoj Menon: Yes, yes, Rajiv. Actually, I think -- For Hemant, I think you probably got the response what you wanted from the management. Let me move on to the next question in the text option, which is from Rahul Kumar Paliwal. He says, Akzo -- so I'm just reading it out. It's a long one.

Akzo Nobel is considered the finest paint in India and the world. But the brand image, particularly in India, Asian paint has an edge with reach, distribution and reference points. What is stopping Akzo Nobel from cracking the code? Why is that super quality having relatively low

mind share and market share? And how, as a leader, you are handling it? Sir, I just read it verbatim.

Rajiv Rajgopal:

Yes, no problem. Thank you for that, Rahul. Well, if I had the secret mantra, trust me, I would have already deployed it. But suffice to say, look, I think we share to the leader in the market, it's a journey over the last 2, 3 decades. I joined in 2013. Market shares are pretty much where they are, maybe a couple of points lower, 50%, 52%, right?

So I think the question which is in our mind is really how do you get that brand. Now the strength of this brand, since you are referring to Dulux, is about quality. So we started a program called Dulux Assurance 1.0, where we gave a money-back guarantee to consumers. We've got some fantastic response. And after launching that program, we've not seen that. We are going to bring a 2.0 very shortly, and I don't want to talk about it because it is not material. But suffice to say, in a few months, we are coming with even more profitable, right?

Now when we do that, and you are absolutely right, our A&P as a percent of our revenue had dipped over the years to almost 1.7%, whereas the other players are about 3% or 3.5%, right? I think our intent is to get back to 3%, 3.5% immediately so that we are seeing, we are visible and not just on media spend but also on visibility in the market; and then over the next 2, 3 years, try and sizably grow it.

The third is 70% of the growth over the last many quarters, last 2, 3 years, have come in from 3 categories, is coming from mass market, waterproofing and economy. If you look at -- if I take 5 years ago, we were not really playing aggressively in mass. We have not even started with waterproofing really. And we were very weak in economy, right?

In 2018, when I got back, we put the waterproofing range. And now we have serious with the economy with exact numbers. But suffice to say that we are rolling at almost 40% CAGR in that category.

Mass market, we've had good growth. But in the last quarter gone by, it does not meet my expectation. Yes, we could -- I think we could have done a little better, which is where some of our competitors are a bit better. And on economy range, honestly, I think there's a lot of growth here.

So we are working on this plan. We are clear in terms of where the growth is coming from, which is the segments it's coming from, which are the players which are relatively doing well. We've been troubling ourselves as a management team and also keeping our ears to the ground.

So we believe that, we will have the sort of winning formula. But again, we are going to grow given the fact that we are number four player. And for us, as we do it, as you've seen over the last many years, profitability is an important parameter. One of the things I don't want to do here is the fact that I dilute significantly the profitability.

When I joined the business in 2013, the return on sales was 5%. Currently it's almost 12.5% including royalty. When you compare that with some of the other players in the market, you'd

see what I'm seeing. We want to remain profitable because that's what will give us the energy and power to be able to reinvest in our brands and business.

So I think it's not an easy answer particularly when you're coming from a position that you were. But what I can suffice and say is I've got great confidence as I have in the past many quarters. And you've seen in our full year results that we are a serious player. And you will see us bouncing back with all the ingredients that you say we have, right, really coming back, yes. So that's what I want to really say.

Manoj Menon: Thank you, Rajiv. Faizan, I find Chanchal there on the question queue. Can we take the questions in the audio, and then we can step back to anything in the text. Thank you.

Moderator: The next question is from the line of Chanchal Khandelwal from Birla. Please go ahead.

Chanchal Khandelwal: Firstly, let me congratulate you because the company, at what position it is today, is basically because of the best people make the company. That's my firm believe. So congrats on a good set of numbers which you have been delivering and the turnaround is actionable that you've seen.

Now my question, Rajiv, is that, firstly, in public domain, so your contract with Akzo continues still how long? It is important for us to know. You are here for the next 5 years or how long it is, important for us to know.

Secondly, on the growth part, you spoke about economy and value segment and waterproofing. All this put together is how much as a percentage of sale? How much is the industrial business as a percentage of sales? Because where I'm coming from is that given the increase in competition in decorative, a lot of people eye industrial as a market, including your MNC competitor. So I'm just trying to understand how -- because that market is growing well, industrial is doing well for now, how big you are and what is your right to win there?

That's the second part of the question. And third question is that the support from the parent, has it changed in the last 3, 4 years? Or you are getting that more confident that you are getting big support from the parent? Thank you.

Rajiv Rajgopal: Yes. So let me start in the reverse order. If it's okay with all of you, so I'll start in the reverse order. First, in a more local market, your parents don't bless you or you don't have the blessing of your parent, it's not easy to win, right?

Akzo had a journey well before Thierry joined, our previous CEO, Thierry Vanlancker. And no doubt he was committed to it because when he took over, his predecessor left the position because of ill health. And as a result, some of the actions we took between 2019, 2018 and 2020 were action of 15% by '20 of how to move the company to a 15% growth by 2020, something that the company achieved superlatively.

Now coming to your second one. As I mentioned to you, Greg was in India for a couple of days. He is the first CEO who has chosen to come to India before visiting Europe or even China, I think that sends a message. If not to the Street, at least to me, right? He spent 2 days. I must tell I've never seen a person who's been so excited to run a business in India.

By the way, just for the record, Greg used to be the CEO of what is called GE Alstom business, which is the power business of GE in India. So Greg knows inside and out of India. My biggest challenge was what do I tell him about India, which he doesn't know because he seemed to know the big business houses, he seemed to know cities, he seemed to know what is doing well and he seemed to know that in a very detailed manner, very granular manner.

His message for me was, Rajiv, you asked me the money I'm going to give you this. It's very different in terms of tonality from what I've heard in the past, or whatever constraints they were because of the strategic options that Akzo Nobel was perceiving. Greg is taking time around to craft his strategy. He believes that India, we can play a serious role and before really looking at a massive M&A or any other option, he wants us to demonstrate that we are able to invest in our business and grow our business which is something that we are also committed to. So that's the last question.

Second, in terms of the reverse order, Industrial business accounts for about 35% to 38%, almost 40% of our overall turnover. The business is doing well. But do we have a right to win? Yes. Remember, I ran the largest business of B2B in Middle East, Africa, Dubai. We've got the same relationships in India. What I'm glad is our team is building on some of the relationships and needs.

We are all working as one Akzo Nobel now. We've got one Akzo Nobel in India which works with me and with Krishna to really bring out the power of the top 15 business. And we are very confident of these businesses over the next few years as India builds infrastructure. Just to give you an example, many of you have been to the Bangalore Airport, new airport, just to let you know, we've also done that, right?

So just suffice to say, when I look at some of the projects we are winning and some of them being world-class we are right up there. So I see no reason. Our right to win is our technology, our right to win is our global expertise, our right to win is brands like International, Interpon and Sikkens, which we believe are world-class brands. I've had the experience for 2.5 years working with the brand. I've seen strong customer alliances that we have. We are really taking out some of our customer relationships really meaningful. So that's on the other part.

On the paints part, yes, suffice to say that we are doing well. There are certain challenges. And I think my view is as far as paint is concerned, Chanchal, as we move forward, you will see that some of the journeys that I have been walking through to all of you on investor meet calls will start showing profit.

Coming to the last part which was one of your questions to me. Look, my contract with Akzo Nobel as a managing director is a separate part. I'm a full-time employee, right? So now in terms of tenure, my tenure ends only in October. I'm sure Akzo Nobel has its heart in place. They understand India is a serious market. They understand the intention of competition.

And let me also give all the investors that two people who've trained under me are getting ready for future roles because also from a next 2, 3 year horizon perspective, there are people who are

sort of working with me, who are getting international exposure and India exposure at this point of time, strong leaders, etcetera, and we'll sort right?

So on my stuff, it's procedural. Don't worry. This is a very professionally run company. And believe you and me, Chanchal, I will fail in my duty if this company is completely depending on one man only. So to me, apart proof of the pudding that you've set small process in the procedure where teams after you were able to take it and sustain it.

I'm very much here, and I'm going to engage with all of you along with Krishna very soon in a physical meet in the investor phone. So hopefully, I've answered all the questions, Chanchal.

Moderator: The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Congratulations on this performance, Rajiv. Thanks for the earlier clarification. Honestly, that was one of the questions that I also had, what Chanchal asked about whether you are kind of continuing or not. But I think your answer is clear on that.

I just wanted to kind of delve on two specific aspects on your strategy. One, you have -- last few quarters have been great in terms of your ability to drive profitability back up. But you pointed towards the need of focusing on raising ad spend to levels that you have seen in peers. In such a scenario and given this changing entry of a new player plus our parent's guidance, how should we look at margins going forward from where we exited at 4Q? Is that a run rate that we can sustain? Or do you feel the need for investments will probably mean that further expansions likely to be limited? I would love to hear your thoughts on that.

And associated, if you could also -- one of the strategic drivers that you pointed to was -- sorry, I'll probably ask the second question later. Maybe you could kind of give your thoughts on the first one, please.

Rajiv Rajgopal: Yes. So look, at this point of time, it's not fair for me to give a forward-looking statement. But we will want to hold EBIT margin. So we are in that zone where now for us building scale takes precedence or driving one leg, which is driving profitability.

Suffice to say with some new competition, we do like other players, expect a couple of margin points pressure or basically improve things, the rational disruption of pricing in the market. But we are working strategies there. How can we avoid it? Stronger positions in premiums.

Yes. So I'm saying that look, so as far as EBIT margins are concerned, we've committed to double-digit profitability. But yes, we do see a bit of challenge. Our endeavour is to hold the margins where we are right now, right, with -- and not really with improving EBIT, for example, [inaudible 0:34:11] etcetera, we want to now really focus in terms of winning in the market. That's really and growth to you. That's where the focus of the team is. If I answered your question, Avi.

Avi Mehta: No, no, that's clear. That's clear. The second bit that I wanted to kind of just delve on was on one of the strategic drivers that you pointed to was distribution expansion. Now I understand would you have any targets in mind in terms of city count or in terms of reach that you would like to

reach, say, 2 years down line or a year down the line? I don't know how do you kind of look at this just to get the team focused on a particular number if you have something in mind?

Rajiv Rajgopal:

So I can give you some broad numbers. See, when you look at number of outlets for every company, the definition is very different. We are very stringent in putting a revenue measure, okay? The reason I put a revenue measure, ICS, for example, minimum INR50,000 from an outlet for an update to be considered active.

So if I give you a number of outlets, it's very different from another player who may not have similar definitions. So when I also have now started realizing that when people look at -- the definitions are different by it, it's not a standardized definition.

So let me put it in terms of number of towns. I think in terms of number of towns, as I said, our endeavours to cross 8,000 towns in a couple of years and then say, how do we really start moving to close to 9,000 towns. So really, I think in the next 2 years from the current 4,800 to 5,000 towns to really say how we really mean in a meaningful amount reach the next 8,000 towns.

As I mentioned to all of you, we started what is called hub and spoke model. You've seen we meet our distributor journey since 2015, right, 6 years ago we have done it. I set it up started setting it up in 2013. So '14 to '23 is a long journey, 10 years, right? And now we are doing the version 2, which is getting into the smaller ...to the rural markets, right? So that's what we are working on. And hopefully, that answers your question.

Moderator:

The next question is from the line of Tejash Shah from Avendus Spark. Please go ahead.

Tejash Shah:

Rajiv, thanks for the opportunity. Yes. So Rajiv, if we see the evaluation of product portfolio of most paint players in the last few years, it has been largely around, I would say, on adjacency side in terms of waterproofing in terms of construction chemical. So I just wanted to know where are we in that journey? And how do you see adjacency playing role in growth ahead for us?

Rajiv Rajgopal:

Yes. So as I said, waterproofing, we entered pretty late in 2018. We have a CAGR growth since then of almost 48%, 49%, to be honest. And in the last quarter of almost 39%, right? We have started entering many segments, whether it's waterproofing, whether it's supply systems. So other than the rains, we will see some action on it between now and early next year, right?

So we do -- we believe that we -- our challenge was -- there are two things in this sort of a business. It's not just about the sale, it's also the service. And one of the good things we learned from the new player in this market is probably a really set up the service model to be able to be very meaningful in this business, right? So given some of our background, right, and some of the team's members that I hired, we even have a good system to be able to make sure that we are completely sort of able to capture the customer voice and be able to address customer queries rapidly. We have started this in a meaningful way only in a few cities, because we want to run in big techs for us before we grow it.

Are we a serious player? Yes, we are a serious player, and you will see us participating in this category very meaningfully. Our attempt is like in most things, we want to be in the top 3 in the next 3 years. That's really our endeavour, right? It's not that the other three existing top two

players are also I'm sure will be very aggressive. We are mindful of that and very respectful of that. But we are very serious that we really want to get into the top three bracket. And as a result, whatever we do in our adjacencies in other categories have to be accretive to our eventual goal.

Tejash Shah:

Sure. That's very helpful. Second, we have kind of an inherent strength on the premium side of the portfolio. But at the same time, there has been a long-standing kind of vacancy in the mass end of our portfolio. And we have attempted in the last 10 years, I have seen two, three attempts which have been made to correct that deficit in the portfolio. So where are we in terms of today in terms of catering the mass end of the demand? And what would the saliency of that part of the portfolio in overall revenue today?

Rajiv Rajgopal:

So look, I don't talk about category contribution to revenue because that's, I think, something that we don't talk about. But I'll give you sufficient information in terms of what we've done. You're right, when I joined the company, we had two brands. We have Promise and Rainbow. Coming with the sort of background I have; you cannot pin any marks to play with a single brand. So we moved to Promise. And in 2020, we move to launching Promise SmartChoice paints economy.

Where we believe that we started getting huge inroads, which is -- the reason why we've been able to access or gain ingress into many small towns and into many outlets. So that's really been the success. I generally think it's going to be very attractive. I do think that that's one category that we are keeping in. It is the profit pool of many of the larger players. So obviously, for us to play a meaningful role and even dream of being in the top three, we have to have a meaningful market share. I hope that answers your question.

Tejash Shah:

Yes. But would that be margin dilutive, that journey of gaining market share in that part of the business?

Rajiv Rajgopal:

Look, you know, I think what we've done over a period of time, our margins when we sort of started the journey to now, we've really been able to address and bring it close to our average contribution margin. So, you know, when I started the journey and I joined this company, the margin used to trade at almost 15 points lower. Now it's almost coming close. So don't worry. I think that's something that we will try and maintain. Even if it's a little dilutive, as I said, we are very clear of the EBIT guidelines.

Tejash Shah:

Perfect. And then last one, if I may. A very broader level question on how the industry is evolving and the kind of competition we are seeing from adjacent players and new players also. So do you think that this calls a very, like makes a case for some consolidation in industry, either incumbents like you acquiring smaller players or there has to be some consolidation between big players? What are your broader thoughts in the industry looking at next 5-10 years from here on?

Rajiv Rajgopal:

Look, I can't talk specifically of this industry because we have to wait to see how the future pans out. But, you know, all I can say is that look at different sectors that have been privileged to work with, like telecom, etc. Or even in the FMCG space, if you look at those events, there is some consolidation happening. But again, consolidation has to come with what is the strategic

advantage that that will bring in. So once that is answered and it makes sense, then it's worth doing it. Otherwise, then it's adding more without any meat in the water you dry out. So we'll be careful.

As a player, we are very choosy in what we do. We've taken the harder journey of moving to organic growth and working on our top line. And that's what we'll continue to do. And we will keep all options open. And certainly our global parent is also keeping all options open. As you know, we have acquired Kansai's paints business in Africa. And that's a case in point to say that we are an agile, focused player. And we want serious positions in markets like in India.

Aniruddha Joshi:

Thank you. Yes. So Aniruddha here. Some questions from my side. So in this quarter, we have seen there was extreme winter in early part of January. And also there were unseasonal rains, especially in north India. So has that impacted our exterior paints offtake during this quarter? And do we see some shift of revenues happening to, let's say, the coming quarter? And the second question is, now with, obviously, with correction in input prices, it is expected that the rebates or the trade discounts are likely to increase significantly.

So how do you see the on-ground situation as far as this is concerned? And third is, some of the paint companies have also announced that they want to get more closer to the influencers, that is painter and contractor. And some of the schemes, trade discounts will be directly directed towards these influencers. So what is the Akzo's strategy in this regard? That's it.

Rajiv Rajgopal:

Yes. Okay. So let me just try. So the first question was around the winter. Yes, winter was there. Yes, it rained in a few places. And how about the exterior paints? On an average, if you look at our premium, which exterior is a large part, premium did very well. Exterior, we had some challenges in a few states in the mass market, not so much in the premium side. So that's the first. The second, really, your second question was around the, no, no, the second question was, I don't know the third question, but what was the second question? Just remind me.

Aniruddha Joshi:

Sir, with correction in input prices, there is likely to be a rebate?

Rajiv Rajgopal:

Yes. No, so that was the third question. Anyway, so rebates, yes, look, there is a regression by some of the players. Obviously, we will respond in a measured manner and in a sensible manner. See, when you run a business, you have to go through the long term. So we will take positions. There are certain parts of the portfolio where you will need to respond. Certain parts of the portfolio will play to the frame. So that's what our approach has been. We've not shy away from taking price increases ahead of the market. And we will continue to look at making sure that what we do is a long term play, not a short term play. I missed one question of yours, which, Yes, your painter and contractor.

Look, I think we've brought now systems by which direct pay-outs can happen. We've started bar code. We've got a painter app. So we've got, we are very digital as far as painters and contractors are concerned. So, Yes, I believe that's the competitive advantage. I hope I've answered all your questions. Can we have the last couple of questions, please? Because I'm mindful of the fact we just went about seven, eight minutes.

Manoj Menon: Sure. Manoj here. Sir, let me take a couple of questions from the Q&A. So we have one from Shivika Srimal of FSSA.

Okay. She asks, with new competitors coming in, all incumbents are focusing on the premium end of the decorative paints, which has been a sweet spot for Akzo being over-indexed with Dulux. Are you seeing any changes in competitive intensity or in the margin structure of the segment?

Rajiv Rajgopal: So in premium, look, the competitive intensity has always been high. I think you were right to win because Dulux stands for the best in class quality international. And to me, those are the optimizations which give you a competitive advantage. So, really, honestly, discounts are dramatically going to change premium sales as much as it does in the market economy. But really advertising and the brand building does impact. So those are areas we're working on to still bring the magic of Dulux back.

As I said, for us, the entire focus is about really seeing how can we bring the magic of paint into the can? So really, how do we get that magic of paint sort of quickly into a growth ambition is what we are really working on. I think we've got some solid plans by which you will see some thought leaderships coming in the premium segment as we move ahead on both innovation, product innovation, product differentiators that we start looking at. Hopefully I answered your question.

Manoj Menon: I reckon yes. Shivika, if you're there, listen to the call, you can message me. You know, if there is some follow-up you need. Let me just check, sir, is there anything else on the Q&A? Okay, so there's a question from Utkash Solapurwala. What's your current capacity utilization and capex plans for FY '24?

Rajiv Rajgopal: So our current capacity utilization depending on the number is close to around 60%. The reason is because we've got a lot of automation into our plants. We've automated significantly. We are only running two shifts now. It's best in class, if you visit any of our plants and see some of our -- the other peers etcetera, you see it's a true blue MNC. In fact, I would say, I know that India plants will be even in Asia will be some of the best in class in terms of automation. We've got things like IoT, AI already included in our plants. And hence, we believe that we are carrying capacity over the next couple of years to increase volumes. We'll come by spreading our assets and hence improving our return on capital employed.

In terms of expansion, we are obviously, as I said, increasing our footprint in both paint and some of the other businesses as we move forward. Capacity utilization is not a challenge for us. We'll be able to do it fast. As I said, we are running two shifts. We can plug and play our third shift and then we can plug and play additional capacity as we go. Our focus is really staying updated, automated, how do we make sure we are spreading our assets really fast. Manoj?

Manoj Menon: Yes, sir, I'm just browsing through the Q&A. Maybe we'll take one last question. Okay. So Lakshmi Naryanan KG from Investments is asking you, what are the top 3 strategic priorities for Akzo senior management for the next three to five years? Please help with some quantitative as well as qualitative inputs?

Rajiv Rajgopal:

I think that's a very difficult question and I'm not sure that I should be addressing such questions in public. But suffice to say, we want to be a meaningful player in the Indian market. We are a number four player. We are perhaps one of the few players in any industry in India at number four, which is significantly profitable. Our profitability in the year has even been ahead of some of our senior players.

I do respect them. They have incredible business, solid businesses, which we also envy, but still want to fight in the market. So I would say, we really move our position from four to three and then slowly upward. That's again organically. In terms of EBIT margin, I've already told you, we want to remain in the current regions of the profitability. We believe that we've got the right ingredient, the right mix.

I think for us it's about the single mantra is growth. How do we really start growing in a strategic manner as we start moving in? So the growth should be something that is sustainable. So it's sustainable growth and that's where really me and my team and Krishna are spending a lot of time saying that it's not about this quarter, next quarter. That will come and go. We've seen many quarters now. I've been on the investor call since 2018. November when I took over with Guha first and then with Harshi in 2019-'20 with Guha, Harshi and then with Krishna. So I've been doing that. It's about building a sustainable business.

Manoj Menon:

Thank you, Rajiv, Krishna and Harshi, exactly dot 5:00 now. Appreciate your time. Any further questions, we will relate to you. Thank you so much.

Rajiv Rajgopal:

Thank you. Thank you, all. Thank you for taking time out to join. Wish all of you have a wonderful day and week ahead, and thank you for taking out time. Good luck.

Moderator:

Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes the webinar. Thank you for joining us, and you may now disconnect your lines.