

Akzo Nobel India Q1 FY2023 Investor Call

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Management:

Mr. Rajiv Rajgopal, Managing Director

Mr. R Krishna, CFO and Wholetime Director

Ms. Harshi Rastogi, Company Secretary and Compliance Officer

Investor Call Transcript – Q1 FY2023 Results

MANOJ MENON

Okay, just good to go. So hi everyone. It's a wonderful, good afternoon. Good evening to you on a Tuesday afternoon evening, representing ICICI Securities. It's our absolute pleasure once again to host the Akzo Nobel India management to discuss the Q1 FY 23 results, updates and the views about the industry etc. From the management side, we have Mr. Rajiv Rajgopal - Managing Director, Mr. Krishna - Wholetime Director and CFO, and Harshi Rastogi - Company Secretary and Compliance officer.

Now Rajiv, over to you. After your initial remarks, we will open up to the floor for questions and answers. Thank you

RAJIV

So, good afternoon to all of you. Good afternoon, ladies and gentlemen. We are delighted to be back on the investor call today. Deepest apologies: we are working here in Gurgaon, didn't realize that it is also holiday for some of you. And I believe some of you have been on some other call, which was also scheduled.

So, a big thank you for taking time out and joining the call. Between me and Krishna, our endeavor today is to quickly run you through how the performance of the company has been. And you know, what are the sort of things that we are planning to do, and then really take a lot of it on the Q&A. We won't take too much time because we had the AGM. And to be honest, it's just back to back.

We are just sort of explaining the bit of the quarter and some of it we are explaining the AGM, since I know many of you would not have been on the AGM call. So just to quickly run you through some of the thoughts.

First, just too quickly just to remind you about AKZO. You know, AKZO NOBEL, globally is now almost about a 10 billion euro company. This does not include some recent acquisitions announced. So I take the 2021 number, it is the third largest in paints and coatings return on sales - now approximately 11.4. We operate in more than 150 countries with about 33,000 employees. We are also the only recipient of the terra cotta seal, which for sustainability, as all of you know, is by the royalty in UK. So Prince Charles handed it over to our CEO. And we are the only paints and coatings company to receive that honor.

We are actually at this point of time expanding our positions across different markets, whether it's group orders that we've acquired in South America, or some of the, you know, Lackfabrik's, which is wheel powder coating in Germany. Also Kansai's Africa business that we've acquired. We also have a change in leadership. So we've got Gregoire Poux-Guillaume, who joins us as the CEO from November 1. He's joining the company in October, and in October, there will be a transition between him and Thierry Vanlancker. And, and then he takes over the company, and most of you would have read about this.

So quickly next about AKZO NOBEL in India. You know, once again, just to remind yourself, we are headquartered here in Gurgaon. Now, we've got approximately 1460 employees; we've got five offices. We've also got five manufacturing sites; we are busy right now augmenting our capacity, and also driving expansion. For example, we have announced that we are going to expand our Gwalior site for expansion for both powder coating and for paints. As we move forward, we are busy scaling our both online and

offline channels with some of the launches, and I'll refer to it a little later. We've expanded our network quite significantly; we are now more than 5,000 towns.

We are now catering to over 20,000 dealers. And post machine has more than 16,000 dealers, which basically tells you the active customers. We cater to about 4,000 B2B customers. About 66-67% of our business comes from paints, and the balance comes from coating business.

We've got a world class ASC Center, where we support the global. It's a global color center that is driven out of Bangalore. We have also integrated what's called the low-cost innovation center. As all of you know, India is the hub of - to use the term - it's called JUGAAD. Innovation is basically low-cost innovation. Yeah, and we are using this to build a lot of differentiated products, and also certain products that can cater to Asia. So, this is something that we ended up doing about less than six, eight months ago. But I just want to mention it, some of the work that's coming out of this, you will really see impact in 2023. Yeah, so that's really about us.

We've gone through two phases of the journey. And if I were to look at it, you know, we started with a 15-by-20, where we were driving profitability. And the reason was, after one of our competitors tried to acquire us globally, India had to play its part of 15 by 20. And that's what we did. The second part of the journey was to really say, how can you drive topline growth to drive profitability and really focus on absolute contribution margin and absolute commercial result driving the operating income and thereafter. Now in India, what are the things that we are doing to deliver this?

The first was really on consumer centric differentiation and looking on customer focused solutions. Yeah, Indian consumers are now getting quite savvy, there are a lot of climatic changes that are requiring paints not just to provide aesthetics, but also things like sustainability as we move forward.

The second was, what I have alluded to in my earlier quarterly calls, called distribution 2.0, which is how we expand our distribution as we start wanting to become a pan India player.

The third is digitization. Ultimately given COVID I think that was a driver for most companies. Really, what we've done is that we've improved our engagement with consumers, painters; we've also driven things like IOT in our sites, to really try and make sure that we can leverage technology and automation of a significantly different size and scale as we move forward.

We'll continue to drive value creation and to ensure that we continue to deliver double digit profitability. For us we are a Paints and Coatings company, which is actually a people business. So how can we become far more people centric, how can we embrace diversity? And we'll talk about it as we move forward.

And finally, how can we really translate the power of science into the magic of paint. Really, for me, Dulux in India is about bringing together the power of science into the magic of paint. Being a chemical engineer myself, that was one of the things we really said - how can you use the chemistry of science of the paint to transform people's lives? Yeah, and that's what brand Dulux is about.

So, these are the pillars that are going to enhance customer experience.

And let me quickly run through the next slide. So the work that we've done recently, where, I think consumers and our customers seem to have acknowledged. First, on the decorative side, is really about bringing world class products and propositions to India market. Of course, brand, Velvet Touch, is the flagship brand. It's known, I think, what we try to do when we use celebrities are really to try and see how we can have advertising that endears to the customer.

We've done research; this advertising has scored the highest, almost 4.1 out of five. It's higher than the average in the paints category, and it's one of the top in FMCG. So really "Feels like Home" with both Ronit Roy and Mrinal Thakur have lifted the brand. Starting from April, we've seen a huge shift in trajectory; our premium interior where we've seen humongous growth in the category, thanks to the advertising.

The second was, we've started looking at our exterior portfolio. We have started using the PU technology to redefine crack proof. We have launched our brand called Max. And you will hear further news just before Diwali as we move forward in this category.

The next is on waterproofing. We created a fantastic digital ad called Parul and Painter, which is quite humorous. This has also started getting highly noticed. And in fact, even getting recognized early, but hopefully through you know, a lot of recognition is just coming in for the marketing team and the agency that worked on it.

Finally, you know, we launched FloorPlus, and clearly our dealers have told us that the quality of paint that you've used is significantly superior to other offerings in the market.

So these are some of the innovations. And just naming a few that we've sort of done in the last quarter. Things that I'm truly proud of first is, you know, something which is very small - DIY is a trend that's really catching on even in India. You'd be surprised to know that among the younger age groups, people like to paint or express themselves on one wall. India is a market which is called, you know, have-it-done.

So we use painters, largely 50% of the buying occasion is done through consumers and 50% through painters. And most of us normally get, you know, our painter and then like to supervise. But what we've seen is the younger generation likes to experience themselves and hence, we brought in our best brand, which is a globally recognized brand called simply refresh. And we've launched an array of products. We just launched it in Delhi; we were trying it because it's the first entry into categories like spray paint. We are the first player and the only player which has launched a multi surface paint which can be used across any surface. We are also selling it on Amazon. And if you google Dulux simply refresh on Amazon, many of you can try; you can order the products. Early days, we've learned. We are not in a hurry to really scale up and drive volumes, because we want to get this right. So we are focusing on making sure that the customer experience is good. So, we are getting backend sorted which is nearly done. We tested it for more than 10 weeks in Delhi.

There were some challenges including certain pricing challenges versus local players in the market. So we've taken those on board and just moved into Calcutta over the period of next three, four months. We will expand our footprint. And by middle of next year, we will be across the country. We will also use digital videos etc. to explain to consumers. it's like when you order anything on Amazon, say a table, you have do-it-yourself videos to explain how to assemble it. So pretty much we are putting all those tools right now. It's our first experience and the first time that we are doing something like this, and we are going to make it last and best in class.

The second thing that I'm truly excited about. Remember, we are a challenger brand in this business. So they'll always be constraints when you handle a challenger brand and as a result we said, look, why don't we do one thing, which is why don't we take the ecosystem that's got a lot of bright young people, sometimes even brighter than us, to be honest, to help us to paint the future. This is a global challenge, which has been running across countries, it was done in Europe. It was done as a supply chain challenge

and as a business challenge in Europe, and later they tried it out in the entire Latin America. They were looking at China. Finally, India is the country of startups and really digital. And so we move this to India as to just test it. And I'm so grateful to Global Chief Technical Technology Officer, Klass, who's just retired, for taking a bet on India.

Where are we right now? We've had about 200 entries into this. Yeah, because remember that our objective or the problem to solve for is about digital experience on the brand Dulux. We are right now sorting it out, we will be shortlisting about 30 entries. And then we will be running a two- or three-day workshop in the month of September. And we will finally select the top 10 entries. And then we will see, you know, depending on the entries, and the sort of suggestions that come in. We've got Krishna and I've got permission from the board to also look at investments into some of these startups as we move forward. So really, to me, this is going to be clutter breaking. However, again, let's recognize this is not for tomorrow's volumes. But this is about really how can you build thought leadership as you start moving forward in an industry, which is not going to be crowded or heated as we move forward.

On the Coatings side, I'm delighted to inform all of you that we've had some very good performance, you know, and Krishna will talk about it. But both our paints and our coating business have done extraordinarily well. Automotive did very well, the refinish part of the brand, because of the recovery in the auto segment, which all of you cover. We've also seen very strong orders from coastal and Navy in both our marine and protective segments. Our packaging business continues to do very well. Powder coating business has now been growing high double digits for almost about five to six quarters. So all in all, even our industry in Coatings business did well. So all businesses have done, you know, reasonably well, last quarter. And that's after a very long time that we've seen, actually all the businesses, both on the paints and coatings side do extremely well.

What I will do now is to quickly hand it over to Krishna, Krishna will walk you through the financials, and then I'll come back at the end of Krishna.

KRISHNA

Thanks, Rajiv. Let me take you through what is driving the performance. Happy to report that we continued our strong momentum on the Grow & Deliver strategy. And in Q1 of the current fiscal year looking at the growth, we reported our highest-ever revenue, quarterly revenue at 937.7 core with high double-digit growth for both paints and coating businesses. Of course, we know that there is some sort of COVID disruption in the baseline. The underlying business is still reporting a strong organic growth. Growth in our Paints business is across all channels and categories. As Rajiv explained, this quarter was characterized by many launches and campaigns which aided the topline.

In the Coatings business, the business has maintained good traction with strong orders across infrastructure, marine, auto and consumer segments.

With this, we were also able to achieve our highest-ever gross margin with 38% growth.

Moving to the next slide. We balanced this with equal focus on the delivery aspect of our ambition. Despite the inflationary headwinds, we sustained double-digit profitability for the eighth quarter in a row. Our EBIT from the operations was up 40% and stood at 101.8 crores. Profit after tax was at 76.9 crores.

Last year numbers of Profit after Tax included a one-time tax provision reversal of 16.8 crores. Like to like growth effectively translates into 30%.

As we see, the inflationary trend is persisting, and we continue to implement calibrated price increases, as recent as one taken in July. These have helped us to combat the inflation in absolute terms, while the pressure on margins has been limited. We stay vigilant on commodity prices and FX volatility. In this, we are supported by some of the advanced analytics and a solid collaboration with our vendors. I'm confident that despite all challenges, we shall continue to stay on course on our Grow & Deliver journey.

RAJIV

So really, for us winning in businesses is one part. I think winning it in a sustainable business is what we are here for. So, just to give all of you a quick update on ESG.

On the environment, we are a member of the TFS. We have 50% of our raw materials - actually now almost touching 65 - which is procured sustainably. We have more than 30% of our energy coming through renewable sources. We perhaps are the only company which has got zero liquid discharge across any site. We have got our own rainwater harvesting. So, most of our factories are self-equipped, so that we do not borrow from the future and also impact future generations. All our sites are covered by one of the most stringent assessments called Lloyd's assessment.

On the social side. You know, I'm really proud because finally, it's not just about numbers and performance. It's also about how employees feel about this organization. We've been consistently top decile on AkzoNobel survey, which is called Organization Health Index, now for many quarters. But really, the fact that we have sustained with such a large team, I think, is quite remarkable. And my compliments to the leaders for really enabling it. We have diversity moving from low single digits to almost 11%; 17% for the Board of Directors and 33% for the KPMs. So this is an area of focus. We have even in the commercial side on sales organization now inducted management trainees, all the management trainees that we've taken this year, we've taken ladies because we really want to drive this. I genuinely believe that equitable distribution is what's going to create a sustained organization. The other thing, which I'm really proud of is what Harshi and team do in terms of skilled training. We train about 2,000 youth a year. Also, what's not mentioned here - we ran something called Project Indradhanush in the northeastern part of the country, where we actually train more than 100 women on painting, and eventually, a few of them have started their own store. And I'm delighted to hear that they've also started getting good value sales of the brand coming from the store. So really, we are very thrilled with what has happened in Assam, and we want to now move it to other states. So, we are going to be taking it to in - not with any other sort of intention reference, but just from landscaping perspective - we are taking it to other states, which Harshi and team are working on.

We have no major fatalities, thank God, and work-related injury in the past two years.

In terms of governance - We believe that we've got very strong overarching policies because we are a strong global company. We got good corporate governance, 100% board attendance, we have an independent audit committee and 50% independent board. Now more importantly, I think the value that comes to Krishna and me from our Board is quite unique. We've also got, you know, the benefit of making sure that we've got experience across B2C and B2B in the Board.

So that's really, from our end. Just wanted to make a few concluding remarks before I hand it over to you. I think for us right now, I genuinely think many of you may have seen the last quarterly call where our global CEO mentioned about South Asia and India, and Vietnam in specific. I think we are really blessed to be a part of this country, because we believe that while there are macroeconomic uncertainties and a volatile environment, we believe that we are on course to deliver Grow & Deliver, and perhaps we'll be asked to do a bit more in the coming year. We continue to focus on our brand innovation, distribution and digitization. And while doing this, make sure that we leave a sustainable future for the generations ahead. One of the things I'm also proud of is the fact that, I think ever since I've taken over the role, we've continuously had investor engagements and make sure that we stand in front of you, irrespective of the performance and answer all your questions. So with this note, let me hand it over to you. I just thought it may be better now to open it for Q&A and to take any questions any of you may have for us.

MANOJ MENON

Sure, sir. Thank you. Mr. Atman Shah was the first to raise hands long back. Rushad, you could unmute Atman please

Rushad

Mr. Shah, just unmute yourself and go ahead with your question, please.

ATMAN SHAH

Yeah, so I wanted to know about which are the states where we can say that we are market leaders or not market leaders, number two player in the decorative category.

RAJIV

So look, we don't normally divulge such information for reasons, but suffice to say, in many of the Eastern, northeastern states, let's put it this way. There are 640 districts in India; in more than 50 districts, we've got a market share of more than 5%. And our challenge historically has been for more than 300 districts, we have a very limited presence - you know, less than one, even zero market share in many places, because the brand was simply not available. And one of the reasons we needed our distribution to start really aggressively moving forward was that I think, even starting from ICI time, we had looked at various models. That's why we moved to a distributor system. As you know, we are now 7th year into a distributor system. And we are doing fairly well. And when I say distributor, I mean that more than 75% of our turnover in paints is covered through distributors. To your question - Yes, there are about 243 districts as of now, where we've still got a lot of work, where we started becoming available. And that's why we put in hub and spoke about a year ago. But I still think that we've still got a lot more to drive. And the reason we have to drive was about a year ago, see, remember that the parts of the business, which was growing was really the mass, economy and putty and waterproofing. And we were very, very miniscule in all these four segments, which constitute a large part of the economy. So with a launch of, you know, our economy segment, we can now drive distribution further, and hence, enhance our market share. So hopefully Mr. Atman, with that I've attempted to answer your question.

ATMAN SHAH

Yeah. Including I think we need to do a lot more than Bombay, because when we speak to painters, maybe 100 painters, 90-95 painters recommend the number one market leader?

RAJIV

Yeah, you're right. So let me break Bombay into two parts. In projects, we are clearly number two. And I think if you speak to the market leader, there's one person who really is bothered. So we do all the, you know, the developers, we do all the large players. The unfortunate part is that it is historic and started with some trust issues in ICI time, but we've been working at it and we are growing; obviously, the pace of growth, even if you go at 40- 50% on a very small base, it really doesn't matter. So I agree with you. While if you just travel from Bombay to Pune, you'll see it's a very different story.

Yeah, so Pune we have a much higher presence, our emulsions are really doing well, etc. But yes, I acknowledge, in Bombay, that's an area that we've still got to work, we take your feedback. And that's something you know, we are continuously going to do and hopefully we get a chance to paint many of your rooms and then you will start recommending it to friends and family.

ATMAN

Yeah, sure.

SHIRISH GUTHE

Hi, Rajiv. I want to say that I have seen the ads that you were mentioning in the presentation, and quite a clutter breaking and appeals emotionally. So congratulations on that, basically. So a little weird question, and I'll be okay if you don't want to answer. If you were a CEO of a startup with a billion dollar in funding, and you had all the intention to succeed, what would you do?

RAJIV

I assume you're talking about the paint industry?

SHIRISH GUTHE

I'm talking about paints here.

RAJIV

Let me put it this way. I would first study the market. I will look at what are the opportunities so I would do a SWOT of all the players. I would really look at what are the opportunities for me, where can my brand or what I'm going to create bringing differentiated value propositions to the market and then start defining the purpose of what we want to do. So you know, even if it's dramatic top line growth but how do you get it? Which are the sectors where it's growing, for example? And what are the things in your competitors' armor that you can exploit?

Broadly, that's what most strategies will start doing. Strategy is about making choices. Remember that if you're a startup with a billion dollars, you know, also the expectations from you are to have the multiples that has got invested to be very high. So I think I would craft a journey, which is really going to drive aggressive growth, because that's the mantra in India while making sure that I do not beat the business

while growing the business. So that's what I would do, I would really focus on the high growth areas, I would really focus in terms of, you know, opportunities, which I think I can win.

And most importantly, any business is a function of the team that you onboard, how do you empower them? How do you really make sure that they're doing it? Because let's be honest, you know, I've seen poster boy CEOs, I don't think individuals can drive things beyond a point. I'm always acknowledging the fact that my team, you know, all the good work that's being done by the team is what we all get recognized for. That's what I would focus on. If you have any specific things that you're alluding to, I'm more than happy to answer.

SHIRISH GUTHE

So the follow up on that is, if I have to think from a customer's perspective, and so we are offlate, like maybe five years or so that we are hearing about differentiated or paint plus or very specific application, problems - solution kind of things. Do consumers really value these attributes? For paints, what is the attribute that a consumer values the most? Or what are the two, top two or three?

RAJIV

So look, I think what has happened in the last decade, because I joined as the Head of Sales and Marketing for brand Dulux, in the paints side of the business in 2013, when I joined, you know, leaving a CEO job in Airtel, right, was a really, it was all about aesthetics. Right, consumers really looked at paints as an aesthetic color point of view. But what has changed in the last decade, is that really the functionality has started picking up. Yeah, but consumers, you know, understand sustainability, but the believability is what they have a bit of a challenge for. For example, when COVID started, we saw a lot of our competitors, putting claims of COVID, it's a separate thing, I'm not getting into that topic of what's coming in the newspapers of some of those claims not being right, that's not where I want to go.

But what I want to say is consumers started, you look at the point of time, anything that came as a deterrent to COVID, making sure your family is not impacted is what people started doing. Because it's your family, you earn you protect, you want to protect your family. So the aesthetic started moving towards a very protectionist, sort of a format. And on top of that layer, when Delhi has pollution, etc. You know, people don't like paying for anti-pollution traditionally, because they want to use Purifiers, etc.

But what has changed is that if there is a paint, which comes with a proposition, why not, because I'm anyway using it, and aesthetics is reasonably guaranteed, then they start looking at functionality and see that, what is the differentiator that I'm going to get, and how different it is. So that's what I would say, Shirish.

Our belief is, look, can we bring in what consumers really want? And really, sustainability is becoming very big on people's agenda. I know you may say that looks legit. From a paints point of view. Maybe it's a little distant? Yes. But there is a value for it. Consumers still say look when I'm painting the home, if I've got a mother who's got asthma, who's got a family member or anybody, if you've got a paint, which is got a solution for it, good. Offlate there have been a few homes which have caught fire, right? It's not that we don't have paints with anti-retardant properties. A lot of our competitors have launched it, but they genuinely came back to us saying look Dulux we believe that when you say something, you will only give us a product that will meet the specification standard.

So we are right now in our innovation center going to look at something. We have that in our coatings business, remember our brand Chartek, we coat oil rigs. And I'm talking of, you know, Aramco or ONGC that's what we really coat on. Or even you know, a Marine Coatings, which is also got similar properties are used for submarine and we coat Indian Navy, British navy, US Navy. So, you know, I think people realize the value of what Dulux, International, all our brands bringing to the market. I think when we give a quality certification, it's the most stringent standards. So Shirish, I hope I've answered your question.

SHIRISH GUTHE

Yeah, am I allowed to ask for one more-minute or should I fall back?

RAJIV YES

SHIRISH GUTHE

One more question on this. So, what is how important is having a complete range of products. How important has that become because, you know, in a way we kind of criticize some companies for selling Putty. But I don't see anything wrong with it. I mean, if it works, you know.

RAJIV

Yeah, Shirish. So, you know, I think that's, I get what you're coming to look, I don't think it's fair to criticize any particular company for selling any particular thing. Ultimately, in a paint, you got to look at the suite of products that are going to give you the perfect finish on the wall or whatever you desire from the paint, right? So all the ingredients that go into it should be a part of the basket. So fair point. If you know how to make putty profitably, then I think it's a good proposition.

The problem you want to realize is y/ou're going to be competing with companies who are also selling it, or who are able to add higher value in it, who've got manufacturing processes, etc. Where the value creation is significant. That's the point you want us to remember. But I agree with you, I think in paint, the idea is to sell a range. But you got to be very conscious when you sell the range. That's what for a player like us, our endeavor is not to drive only one part of the business. And there have been countries where, for example, we launched putty, and lost focus on some of the other categories, and that should not happen. As long as that doesn't happen. I think I agree with you that we should play in the complete portfolio.

SATISH GUTHE

Okay, perfect. Thank you so much. I'll fall back in queue if there's any follow up. Thank you so much.

MANOJ MENON

Hey, thanks, SATISH. Mr. Joshi, you want to go ahead next please.

ANNIRUDDHA JOSHI

Yeah, can you hear me now? Yes, I can hear you. Yeah, yes, sir. So first of all, I have also seen Parul and Painter ad; it has really come out very well. A much-differentiated effort to connect and I really congratulate you for that.

So one question is, we have already done the products, we have also done the distribution expansion now. So what should we think as the next key driver for growth? And what are the three key initiatives that we are working on to connect more with the painters and which are relatively differentiated compared to the peers? So that is one question. And secondly, can you share more info on Weathershield? The crack filling product? So what exactly is it - a combination product between paint and waterproofing? And the target market? How should we think about the prospects over the next two years for that product? Thanks.

RAJIV

Your first part, look, I will be wrong if I think that we've completed our distribution effort. Remember that when I joined in 2013, we were covering less than 2000 towns in the country. India has got 11,000 towns. When I say 5000, I'm not very proud of myself for the team. Again, for a company and a brand of our size, which will be more in the region of about 7500 to 8000, which is a target for next year, by end of next year. So to me, I think distribution has to be a continued sustained effort.

As I explained to you, we are measuring market share by district - 640 districts. I can tell you district by district, what our market share is, and obviously we don't do that in public domain. But suffice to say that more than 250 districts we've got a lot of work to do. So clearly, you will agree with me that that's the first area because whatever else you may do, if your distribution is limited, if your distribution strength is not bigger than your brand strength, then the all the advertising you do on air, etc., is wasted. The second is really how can you come up with compelling propositions and communicate it in a very simple and effective manner. So really, this is what we've done.

We've started some good work, we've got some good marketing hires in the team now. And we really started working on our flagship brands, to make sure that consumers notice our brand and are able to do it, you will see more of it as the time goes. Our DIY, for example, I just saw the advertising or videos, which are going to be seen on to the digital media and Amazon very shortly. It's looking fantastic. You know, so really, I think there is a step up there. That's something that we'll continue to do. We'll continue to work on a portfolio both on our paints side and also on our coatings side. Because also I believe that India is becoming far more health conscious. I think our coatings businesses also have solutions globally, which we can render locally.

I just want to remind all of you that a few years ago, more than what we used in manufacturing in our coatings business, about 55% was procured locally, it's now almost 75 to 80%. And that was the reason why we want to work with globe, get technologies in, etc., so that we are able to reach our customers faster. So that will be the second.

The third is driving digital. If you look at it from a front-end perspective, we are on CRM now, the ability to look at data at a very granular manner, is very key for a challenger brand to win in the marketplace. On the painter part, let me tell you, we are doing a lot of stuff. Having worked in telecom, as you know, one of the good things of working in telecom is that you get offers, which your competitors cannot see. And I was very blessed to work for Airtel. So that's something that we brought along in terms of thinking, because, you know, individual targeted offers, which grow people cannot see, because it's all very individual. You cannot choose one lakh painters to figure out what offers they've got. It's something that needs started testing last year, is doing wonders for us. And that's been also a reason why we've been able to move up trajectory very, very quickly.

In terms of your second question. It was about Weathershield. Look, PU is, Polyurathene is not just a waterproofing. See, the proposition of Weathershield Max was about Crack Bridge. So you remember when I came in 2013, we came with the slogan called crack proof, right? Because we wanted to really bring about saying what is the unique benefit of brand Weathershield. Now we've wrapped it, they've got two brands in the portfolio, you've got Weathershield Max, which we wanted to enhance crack proof. And so PU lends itself to that proposition becoming stronger. And you'll see some work happening on a flagship brand. It's the most Premium Ultra brand, which is called, Weathershield PowerFlexx, which comes later this year, where we are going to combine technologies, where we are going to make sure that we are able to face because the external facade, it has a lot of challenges against the environment, dust, rain, heat, right. So you need ingredients which are able to address it. And that's what I call them, you know, power of science into magic of paint. And that's what all my chemical engineers, and all my scientists working in, across my centers are currently working on. So that's something I'll come back to you. We don't share the formula, or you know what exactly it is, but at a broad level. I've explained to you what this is about.

ANNIRUDDHA JOSHI

Yeah, yeah, sure, sir. Many thanks. Just last question for myself. We have multiple sub segments in industrial paints, like automotive auto refinish, powder, coating, marine, etc. So just in terms of EBITDA margins, can we rank the various sub segments - is powder coating highest margin then, which are the others.

RAJIV

Automotive will always be one, but I think, look, I would say about two, three of the businesses are very close to each other in terms of EBITDA margin, not very different. I think the one business which is slightly lower is a coil coating business.

Because a lot of variables in these things, honestly, very difficult. For example, you know, refinish brands, at some point of time, there are reasons why it goes up and down. So, but suffice to say, these businesses are all within ambit of each other. Not hugely. But our Coil Coatings business, of course, is significantly lower.

MANOJ MENON

Thank you. Anyone who's got a question you may please raise hands, not sure you could actually unmute and speak. If not, just please raise hands. I can't really find a queue at this point. I've got a few questions, but I will ask the last. If you have something, please go ahead right away.

SHIRISH GUTHE

Yeah, just one question. Basically, distributors, like the incentivizing of distributors who are already selling one or two brands, because we are at a point you can't really incentivize more and more so. So what is it that you guys are doing different?

RAJIV

Look, I think it's a traditional FMCG model. So you know, they sell our entire range of paint brands. And in terms of incentives, there is nothing unique. Suffice to say that our focus is to drive distribution. And that's

where we place a lot of emphasis and some of the incentives towards so it's driving the newness of the business.

SATISH GUTHE

Got it. Thank you so much.

MANOJ MENON

Sure, thank you. Thank thanks, Felicia and announcement again, we are in the last 12 minutes of the call. If anyone has got a question, please feel free to raise your hands. And you know, we will we'll take your questions until then, Rajiv, Krishna, and Harshi, there is one thing which I wanted to understand was, you know, it appears from the performance and the commentaries of, you know, for most of the paint companies, excluding Indigo, who's a decorative specialized player, that there is a recovery in the non-deco part of it, you know, in the last three months. So two questions there are - what would you attribute that to? Because it was not in, at least in my understanding, visible in the fourth quarter, certainly what has changed in the last three months at an industry level? And some comments about, you know, your outlook on this particular line of business, which is not decorative, which gives us auto industrials, different segments, whatever color you can talk.

RAJIV

Ultimately, growth is growth, I think I'm more than happy to embrace it, right. I mean, I think, you know, it's about delivering a balance. And while doing so just making sure that you continue to deliver on the biggest promise, which I've given to all of us shareholders and with people I've also met, which is that we continue to deliver strong double-digit profitability. That's the baseline, according to your specific question. Look, even in the last quarter when we grew double digit, our Coatings businesses had grown. So I would say it's not one two months. I think, you know, in my mind, it's a little more than that.

I think this is where India's an outlier. So one of the things I really realized that I think you're in a wonderful spot, whether you like it or not, the consumption is not just limited to FMCG, the traditional FMCG businesses, but also, you know, beneficiaries, like our business, like paints and coatings, in particular are huge beneficiaries. Because remember, when a person brings multiple cans of Coke, you're consuming AkzoNobel, because we coat the inner and outer surface of the can. When you consume a lot of Nestle products, we coat Nestle cans, right, so I'm just giving examples of our customers. And when they grow, we grow. You've seen astounding results now coming from the infrastructure big players, you know, some of our largest customers, whether it's L&T etc., are all doing brilliantly. So, I think, for us, the focus is to be dissatisfied with the solutions we give to our customers and say, how can we help our customers' business grow either in top line, or we give solutions, give them better value for them to deliver better bottom line. That's really our focus. And hence, in my view, I think this is what we are driving all the coatings business. If you look at my auto business, now we have grown, and Krishna was driving that across our entire South Asia, including China. Krishna will tell you that India has been the top performer in this business for almost about 5-6 quarters. And, you know, so, you will see that some of our businesses have been growing well. I think any area of improvement have been a little bit on businesses, which had no profitability, and also certain cyclical moves, like marine protective is very cyclical, So better than, for

example, all the logistics challenges, which sort of we went through during the COVID period till very recently, on occasionally, I think that's what some of the businesses get impacted.

So in my view, look, let's face it, we have a 65 to 67% of our revenue coming from Paints and the balance is from Coatings. So it's not, it's not that we are largely only a coatings player, some of our competitors, the leader, India's largest player, almost 90% of revenue coming from paints. So, look, I think I truly am blessed to be in an industry which has seen some humongous growth despite the fact that more and more are going to join the bandwagon. And that's the area that we still need to do a bit of strategic planning. We are in progress but I think of the level of satisfaction that I would like. But to answer your question, our customers are growing and we are seeing good growth. It could be a bit choppy in the near term and it is to say that look, don't get eluded by the absolute 50% growth, etc., that we've reported because remember last year this week, about a week was down because of COVID. So I think that's still the underlying growth is still very strong double digit for most of the players.

MANOJ MENON

So I'll just take the questions. And then I have one more actually, about profit pools and but I will come back in the queue.

ASHIT

Yeah, thanks for it.

Rajiv. Hi. So on the distribution part, could you elaborate a little bit more as to how this FMCG kind of distribution addresses the serviceability part as well as the push element?

And does it mean that having one more intermediary that to trade merchants will always be higher than competition over here? So also, does it allow you to have, say, lesser number of depots versus competition of rates?

RAJIV

I think you've answered the most important part by asking the last part. So the answer on that is, you know, when I came in with the traditional, I was told in paints it's never succeeded. I always believe that I've been through the category that it would succeed, it require a lot of will and determination, and the ability and resilience to stay put and not change strategy when something is not working.

But try again and again. So to answer your last part, if you look at our working capital from 2011, to now, we've had years which are negative working capital, and perhaps we are the only country globally, which has a negative working capital, which clearly tells you that we have unlocked value. And that's what's resulted in some good cash flows.

To answer your first two parts look, when I say traditional FMCG, ultimately, what does an FMCG intermediate do? You enable or make the brand available in a wider set of outlets. Finally, the brand must have strength to be able to get consumer or customer demand.

So our teams were doing a lot of push. And, at the same point of trying to generate, and obviously over the years, we were seeing that we were becoming an underperformer. And it took a while. It's easy for me today to talk about it because it's seven, eight quarters have now sustained growth. But I can tell you the journey here is quite an assiduous one, in all humility. ~~I must say that right.~~

So now our job was to really start saying how can we drive offtake as compared to drive selling We are 130 depots. We are now down to about 30 depots. So to answer your question, yes. And we are doing some program now. We've taken some expert help, where we are trying to still see how we can operationally intensify in the next couple of years.

Using more of leveraging technology. Look, ultimately, the purpose of the intermediary is to make the product available and to make sure that they handle the collections in the local market, because they are best done with the sort of attrition you're seeing, particularly for a challenger brand across industries, or even leadership brands. In many cases, it's impossible for the sales guy who's a Sales Officer to be chasing multitude of things that the company expects. So really, how can you get a local entrepreneur to drive it? And I think reasonably now after about six, seven years, I can tell you, I think we've now moved that needle.

So that's a done thing. Its rolling across South Asia is a testimony to me that I do now is taking the best model from India and rolling it. And you will see some announcement on people very shortly on that. I think India is also going to give a huge amount of talent to AkzoNobel to drive this at a regional level. So that's the second. The third, I think the best thing is when I bought the markets, and that's something that I regularly do go to the smaller towns, we did it recently. You know, when President of Asia was down in MP, you go to smallest towns and ask the smaller retailers thing that has availability improved? And the answer is yes. I hope I've answered your question. There are certain nuances. So when you look at traditional FMCG we finetune it to cater to the needs of the paints, Euro market.

ASHIT

I'm sorry, I missed how many depots you have used.

RAJIV

We used to have 123 depots at one point of time; now we've got 30 levels.

ASHIT

Okay, so the distributor stocks as well as has the capability of detecting.

RAJIV

Yeah, but remember, for me, I have not one of the things in India, which we've done successfully is we don't keep more than 21 days of stock with distributor where you want to be the token distributor. Distributor is not supposed to be a stockpile. Yes, the stock is for making sure faster service to market. But really it is about making sure that the person there is able to act as a local entrepreneur.

ASHIT

Got it. Thanks for that. I have no questions on this. But I think I'll take it later. Thanks.

MANOJ MENON

Thanks for coming over to so.

AMIT SINHA

Hi, can you hear me?

Hi, Rajiv, thanks for your time today. I just had, you know, two quick questions. I wanted to understand your profitability trajectory for the full year. And if you have anything, any comments there, you have done, I think amongst all the peers, I think your performance compared to your historical numbers stands out. So congratulations on that. So just wanted to understand how we should look at your EBITDA margin, in FY 23, you know, in the next 12 months or so. And any commentary on deco market share? These are the two questions.

RAJIV

So let me first answer your second part. I think I'll also request Krishna to chip in. So on the market share is really, if you take the list of players, we are about 6 to 7%. You take the total market, we're at about five to six. I think we were losing market share 17-18, and a bit of 19. But I think post COVID the recovery has been pretty strong. And you can see that quarter on quarter. You know, I think it's about five, six quarters in our understanding at a district level. They're more than about 350 districts we are getting market share.

And these are it's a weighted industry. And these are districts that count. We've got a long journey. Because from where we should be given the strength of the brand, I think our intent is to add at least a one-point market share, which is very ambitious plan on annual basis going forward. So that's really on the market share. We are getting market shares. But we still are realizing that there are certain areas that we need to plug from a portfolio perspective and from a distribution perspective and move it dramatically as we move forward.

KRISHNA

Thanks for the question. But as you know, we don't disclose the margin percentages. However, having said this, as we explained as a part of the strategy Grow & Deliver, we are focused on the accelerated growth in India.

At the same time, our idea is to maintain and grow the margin percentages. And we have been constantly demonstrating that.

RAJIV

I'll just add to that. Suffice to say that we've got a certain trajectory profile on EBITDA margins and EBIT margins. As I always said that our endeavor is that we should not drop double digit margins, that's really been the number one. We're doing a lot of backend work on value creation, without affecting consumer experience, on all our products. On that we don't allow any of our products to have a poor experience with the customer. So for example, we do not compromise on our color coverage. And quality. And that's one of the reasons why we launched Dulux Assurance, because we believe that once you bind, you must get the reassurance of a brand.

We've tried to answer your question.

AMIT SINHA

Thanks a lot. I mean, this is very helpful. Thank you.

MANOJ MENON

Thanks AMIT. Thanks, team. So you're pretty much at four o'clock, anyone who's got a last question or just feel free to raise hands so we could close and reconvene next quarter?

Rajiv, Krishna with your permission, I'll probably give five seconds.

RAJIV

So you know, there are once again, a big thank you to all our investors who've taken the time to join us. Perhaps many of you, some of you who have got holiday today. Do feel free if you have any further questions, do not hesitate to ask.

Drop in a mail to Harshi. And we are more than happy to answer any question and we also at some point of time during the next few months, we will work it out and try and make sure we physically meet investors because it's important for me to ensure that Krishna personally gets to meet all of you and all of you get to meet him personally. Once again, big thank you. Stay safe and wish all of you wonderful evening. Thank you very much.