

May 12, 2021

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Sub.: Q4 FY 20-21 Financial Results Conference Call – Transcript

- Ref.: 1. Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**
2. Scrip Codes : BSE - 500165, NSE - KANSAINER

Dear Sirs,

This refers to the intimation done by the Company on May 6, 2021 with regard to the Conference Call to be hosted by the Management of our Company to discuss Q4 FY 2020-21 Financial Results of the Company, and intimation done on May 8, 2021, an Investor Presentation was enclosed for the same.

The Conference call was hosted by the Management of our Company on Monday, May 10, 2021 at 11 a.m. (IST) and we are enclosing herewith the transcript of the Conference call for your information and reference.

For **KANSAI NEROLAC PAINTS LIMITED**

G. T. GOVINDARAJAN
COMPANY SECRETARY



“Kansai Nerolac
Q4 FY2021 Earnings Conference Call”

May 10, 2021



ANALYST:

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- ICICI SECURITIES**
MR. ANIRUDDHA JOSHI - ICICI SECURITIES
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MANAGEMENT:

**MR. HARISHCHANDRA MEGHRAJ BHARUKA –
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KANSAI NEROLAC PAINTS LIMITED**
**MR. ANUJ JAIN – EXECUTIVE DIRECTOR -
KANSAI NEROLAC PAINTS LIMITED**
**MR. PRASHANT PAI – DIRECTOR (FINANCE) -
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**MR. JASON GONSALVES – DIRECTOR –
(CORPORATE PLANNING, IT & MATERIALS) -
KANSAI NEROLAC PAINTS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Kansai Nerolac Q4 FY2021 Earnings Conference Call hosted by ICICI Securities Limited. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaideep Goswami, Head of Equities, ICICI Securities. Thank you and over to you Sir!

Jaideep Goswami: Thank you. Good morning to all. On behalf of ICICI Securities we welcome you all to the Q4 FY2021 Results Conference of Kansai Nerolac. We are pleased to introduce the senior management of the company Mr. H.M. Bharuka, Vice Chairman and Managing Director, Mr Anuj Jain, Executive Director, Mr Prashant Pai, Director (Finance) and Jason Gonsalves, Director (Corporate Planning, IT and Materials)

In spite of multiple challenges of COVID, national lockdown in Q1 FY2021, localized lockdowns in the rest of FY2021 and sharp increase in crude oil prices in H2 FY2021 Kansai Nerolac has continued to report strong improvement in revenues. It has been able to report healthy performance in decorative paints and its performance in automotive paints has improved with recovery in auto sector. It has also done well in new business segments such as putty, adhesives, and waterproofing.

Without taking much time, I hand over the call to Mr H.M. Bharuka for his initial comments on the results and then we shall open the floor for interactive Q&A session. Thanks and over to you Sir, Mr Bharuka.

H.M. Bharuka: Good morning friends. Thanks for joining Nerolac’ Q4 and FY2021 earnings conference. I hope and wish you and your loved ones are safe. I hope you have gone through the presentation, which we have put it on the website. It is more of a strategic presentation than financials.

Let me briefly take you through these few slides. All of you are aware the business environment of 2020 and 2021 starting with the full lockdown in the first quarter. Without going into the detail obviously initially what was important was to ensure that we preserve the cash, we are able to collect the money and ensure that safety of the plants and employees are paramount important and that is where lot of attentions were given.

There were a lot of force majeure, which actually affected our supply chain; however, much better than what we had thought, the demand gradually recovered and faster for decorative than for the industrial.

*Kansai Nerolac
May 10, 2021*

Given this scenario if you look at our performance we believe we have done well. While we have not gained market share in decorative, we have gained market share in industrial across whether it is auto, powder or general industrial or auto refinish. We have been able to connect with all of our stakeholders during this pandemic crisis and lot of efforts on cost reduction and focus on cash collection resulted in cost reduction and improvement in cash.

Obviously, initially it was very difficult to connect with the market especially the dealer and the influences, so we focused on the digital connect and there were a lot of applications, which were launched for example this SAP application, today which helps dealer to place the order directly on their mobile to the company. They can call us or they can type it. So even salesmen without visiting they can make an order. They can also view their statement and whatever information they need. So even if the salesman is not available the dealer is able to call to the company or book the order.

We also introduced the application for our salesmen, which guides salesmen, which shops to visit, where perhaps growth is there or where growth has not happened. So in this scenario, it has helped our salesmen to improve the productivity because it gives you the rich map and geo-tagging.

We also launched the application for influencer through which we are able to connect all painter through a digital mode. Of course, you are aware digital invoicing and vendor invoicing management now perhaps is more or less digital and compulsory. So Nerolac is fully now digitalized as far as billing is concerned or billing from vendors are concerned.

If you look at our subsidiaries domestic subsidiaries Perma, Nerofix, and Marpol all of them have done well and we have been able to improve our EBITDA margin.

On the international subsidiaries also all three subsidiaries Nepal, Bangladesh and Sri Lanka did very well. Bangladesh despite all the problem of for six months overall for the entire year they have been able to have a topline growth of 15% and EBITDA when we took over was negative has improved to 6.1% just in two years.

Nepal also we have been able to improve our EBITDA from 16% to 18% even through topline was negative because you are aware Nepal was almost virtually fully shut for three quarters.

Sri Lanka where we are having a problem where the EBITDA losses are more fortunately there as well despite all these issues we have been able to grow topline by 20% for the entire year and were able to reduce our EBITDA losses.

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May 10, 2021*

So if you look at entire financial result on a standalone basis for the quarter our growth is approximately 35%. EBITDA growth is 59% and net profit has grown by 79%. However for the entire year, the net revenue is still negative by 5% and EBITDA is positive by 6.6%. PAT is marginally positive if we exclude the write down, which we have done for the Sri Lanka business, but on a consolidated basis if you see our numbers are better even than the standalone number more or less similar but tax has improved by 89%, which indicates that performance of subsidiaries have done well.

Even on the cash front both operating cash flow as well as free cash flow we have improved. Operating cash flow has gone up by Rs.400 Crores and free cash flow has improved by Rs.542 Crores. Our cash position excluding the investment in the subsidiaries is Rs.740 Crores.

Given this background, the Board decided to increase the normal dividend, which is about 33% payout of 315 against 315 of last year 325 and 200% as we can say centenary dividend, which has been declared as a special dividend. With this total payout is working out to be about 47% to 48%.

Coming on this current year 2021-2022 though we started the year on very optimism note unfortunately COVID wave two has hit us and we do not know how long it is going to last and how it is going to affect us. On top of this, last year when the COVID wave was there at least raw material prices were benign; however, now the raw material prices actually are at the top of the roof and everyone is aware that commodity prices are highest and there is lot of supply tightness as well.

Give this scenario our business focus is on improving the market share in decorative, automotive and across the divisions and may be my team will cover later on. We are entering few new segments, which were not there earlier like adhesives, Construction Chemical partly one of the reasons why our overall top line in decorative looks lower compared to the competition. It is purely because we were not into these segments.

Our normal decorative range has done equal to the market. In automotive we have been able to gain market share and I think we will continue to focus on technology and service to improve the market share; however, top most focus in the current year is to get the price increase so that we are able to maintain the profitability.

On powder coating we have been able to actually expand into few new areas like rebar coating and pipe coating and even on ARF our focus will be on improving the market share. Some of the strategic initiatives on decorative as I mentioned will be on differentiated products, some new distribution model, focus on Soldier and focus segment like construction and adhesive chemicals.

We will continue to focus on digital because believe that it is most important going forward and there is a strategy, which has gone up with new digital counsel headed by Jason. We also work closely with our group companies including parent company to get the new technology so it not on the Kansai Japan, but Kansai group companies like Kansai Africa or Kansai Europe or Kansai Turkey for us to get the technology.

This also helps us in having a global procurement and also trying to get the approval from the European auto companies. We will also continue to focus on improving the profitability when we are aware that raw material prices are high so we still need to ensure that we focus on internal improvement whether it is cost reduction or product mix or raw material prices or productivity or asset sweating.

I think this focus will continue what was there in the current year as well. On top of that we are also putting lot of attention on the talent development. We have just taken a Senior Vice President, Rohit Malkani who was with Crompton and Asian Paint earlier who has joined here as a Senior Vice President who will be in charge of quality decisions. We have also reorganized our entire setup with focus area as a business heads with profitability in charge.

Given this background what we are also doing is we are focusing on our R&D, digital factory our Amritsar is a total digital factory, continue to focus on the brand and also digital focus, which I mentioned, which you can look through my presentation.

Last, but not the least, our focus is mainly also on ESG and you would be happy to note that Nerolac is in the top 50 corporate selected by the NSE and we have been also invited by MSCI, S&P and FTSE to participate and our aim is ensure that Nerolac is in the top quartile of the ESG index and we are very confident with whatever initiatives, which we have taken that our ESG score will be far better than anyone else.

With this background, I would like to invite question and answer from you and my team will also join in addressing. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentleman, we will wait for a moment while the question queue assembles. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Good morning and my first question is on how is the sort of sales traction given the second wave and I ask this in the context that unlike the first wave where the constraint was mainly put by the government and therefore there was a supply constraint this time the government has not said that you cannot do construction and painting and anything so there are no restrictions from the government side, but there would be a demand impact so just wanted to get some color in terms of how has the last 30 days be versus let us say benchmark of

January to March quarter? If we take January to March as 100 then the sales has fallen to what level 60, 70, 80 in the last 30 days?

H.M. Bharuka: I think you are right though there has been no supply constraint but there is a full demand constraint I would say with total lockdown virtually in every state. Almost 70% of our depots are closed now and even if you look at OEM most of the OEMs have announced they shutdown now so virtually supplies have stopped so while you can say technically production is on, the units are on, but there are no orders to produce and we also find it difficult even to move the material so to that extent I think logistic is affected. So first few days that is first three weeks of April were very good and I think we were very hopeful that this year will be very good the way we started, but I think post April we gradually we feel started going down and virtually now it is a full break I would say. So difficult for me to say that how this quarter vis-à-vis the previous quarter or the corresponding quarter because we do not know how long this situation is going to last because the lockdowns are continuously being extended even though labors have not moved very much compared to what it was last year in the first quarter; however, we still find that pillars are closed, projects though are running but still they have a labor problem and it becomes very difficult to make those supplies and we are not very strong on project to be very frank with you. So to that extent, I think we are affect. We only hope that this situation improves faster and we are back to normal.

Percy Panthaki: Repainting demand in decorative has also fallen very sharply is it or is it like moderation rather than a very sharp fall?

H.M. Bharuka: You need to look from, I would say medium to short term perspective rather than looking this month or these few weeks. Last year, I do not think anyone of us, were expecting that pain is going to have a positive growth given what happened in the Q1. Despite that I think all of us did very well. Even now at present obviously as I said shops are closed so no one is inviting painters to their house so obviously it is affected, but it is not zero. Let us put it this way, but difficult to say how much it is going to get affected when we end the quarter. So right now let us take with a pinch of salt that it is affected and it will improve gradually, but faster.

Percy Panthaki: Got you. Sir second question is on the gross margins? Obviously there is an input cost pressure and price increases have not fully caught up to that so just wanted to understand from your point of view, do you see the gross margin pressure currently more on the decorative side or more on the auto and industrial side?

H.M. Bharuka: The raw material prices have gone up sharply starting last quarter of the previous year and even in April it has not gone down. In fact, it has gone up slightly. So raw material prices are at the peak as of now and in the last week of March price increase we took in decorative

and also in industrial we have been approaching our customers for price increase. So certainly the price increase has to take place if you have to protect our margin. However unfortunately with this lockdown what do you do? How do you take price increase? How do you talk to customers so basically you are waiting for market to get opened and perhaps then take a call on price, but price increase is inevitable if you have to protect the margin. We do have some inventory or the order booking of earlier period, but despite all that, price has to be steeper.

Percy Panthaki: Right Sir, but when you talk about protecting the margins also we are coming from a context where FY2021 margins are much higher than the trend. So would you like to protect the margins at FY2021 level or would you look at a longer term of historic average and say that, that is where you would like to keep the margins at?

H.M. Bharuka: I think for any management obviously they would like not only to protect but improve the bottomline, but the fact of the matter we also need to be conscious of the environment in which we are operating, so we need to understand customer perspective. We need to understand what is going on in the mind of consumers. Right now when the incomes are falling do you try and support the customers or do you try and support the margin. So I think this is a very difficult call. We would wait for situation to improve and then decide how to do it, but as I mentioned there is no choice but to increase the price to protect the margin so that will certainly take place but how fast, how quick, and how much it would be that depends upon how fast demand is reviving.

Percy Panthaki: Right Sir and last question if I may squeeze in. Among the top four or five big players if I take only that as a universe and ignore the small and unorganized guys how would you say your growth has been versus the industry in decorative?

H.M. Bharuka: Fair enough. So I mentioned other than decorative increase in the market share. In decorative we have not been able to increase market share. If you look at our growth, it looks lower compared what it has been with some of the competitors mainly because there are products like I mentioned Construction Chemical and Adhesive, which we actually just introduced though one year back we started, but we could not introduce the range. Only in the last quarter we were able to complete the entire range and we need to now ensure that we are able to cover up the distribution. So if we ignore that our market growth is equal to the market growth of industry; however, if we take that in consideration certainly we are lower.

Percy Panthaki: That is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Aditya Bhartiya from Investec. Please go ahead.

Aditya Bhartiya: Good morning Sir. Thanks for the detailed presentation. Sir raw material prices have gone up so sharply but despite that we have seen the companies have waited for a while before passing on the increase cost? You did it in the last week of March? Some of your competitors are doing it now or had announced it to happen from the first week of May? Has this time been any different from what we have seen in the past? Also what we generally get to see is that all companies announce price hike in tandem may be within a gap of one week? This time around it has been a lot more dispersed so how do you explain that Sir?

H.M. Bharuka: Number one I think yes this time it has been different compared to what was earlier. Earlier whenever the cost used to go up, I think immediately the industry used to increase the prices to protect the margin, this time as I mentioned earlier that right now the demand is totally disturbed so if you announce price increase it is not even going to help because first you need to get your sales in place before you start talking about the margin number one. Number two, I do not think it is a right statement that everyone in the industry has been announcing the price in tandem. If you look at Nerolac it is our history that we do not follow the trend of industry. We look at our strategy and our cost and build on that we take price increase. There are various occasions where we have reduced the prices before the decision is taken by the industry or we have increased the prices before they have decided. Similarly here we felt that we need to take a call and we took that call without waiting for the industry to decide. So we are decoupled from what the industry is doing. We take our own decision. May it is right. May it is wrong or right, but what we feel is right based on that we take our call.

Aditya Bhartiya: Sure Sir. On the first point that you made that because environment is not conducive but commodity costs have actually been going up for the last couple of months and you took the price hike may be towards the end of March when the environment was still fairly buoyant? So why did this time around we had to wait for almost three months before passing on the commodity cost and not early?

H.M. Bharuka: As I mentioned, I think you also take into consideration the inventory which is there so to be very frank with you, I do not think margin got affected in decorative by not increasing the price earlier than what we did it. As far as we are concerned we were not affected in the last quarter in decorative in terms of margin and that is why the prices increase was not done, but when we felt it is getting affected that point in time call was taken; however, in case of industrial it is a long drawn process. We have taken good price increase in powder coating for example, if you look at last quarter we have increased prices by almost 8% even in previous quarter in powder coating. In refinish we increased prices by 5%. In performance coating and general industrial we increased price by 3% so it is not that we have not increased prices other than decorative. We increased in fact starting I would say

from January itself for the various segments. Auto when it comes to OEMs, it think it is contract base, which we need to discuss and then take a call so auto always takes a lot of time; however, other than auto we have taken the price increases.

Aditya Bhartiya: Understood Sir. The bulk of gross margin erosion that we have seen in this quarter would that be attributable to auto business in that context?

H.M. Bharuka: You are perfectly right. It is more to do with the mix of deco and auto. Normally that is why when it comes to Nerolac you cannot compare all four quarters. We need to look from a year perspective because in some quarters decorative will be high and some quarters industrial business will be high. So the mix keeps changing, which affects the margin rather than the drop in the margin.

Aditya Bhartiya: Sir my last question if we compare it with the first wave which appeared to be centered lot more around metro cities and Tier I towns? This time around it appears that it is lot more spread out? In that context, sitting today do you think that the impact on the same sector or on the repainting demand may linger on for a much longer than what we saw the first time around?

H.M. Bharuka: I think so. That is my personal belief because we are seeing lot of people getting affected. Even in my staff in the first wave hardly 2% of the people got affected, but in the second wave 8% of the people have got affected. So this clearly indicates that it is spread across and we had also few fatalities unfortunately. So certainly this clearly indicates and also looking at the positivity rate, which is being reported across various districts, I think this is going to have an impact much more than the impact which was there in the first wave, number one. Number two perhaps this will be a longer compared to the first wave because here, this would have been better to impose a national lockdown of 15 days or one month rather than having a partial lockdown or leaving it to the state because that never helps because the uncertainty continues and the bad news which we see on the media drops the sentiment of the people. So you are right this could be a longer wave.

Aditya Bhartiya: Thanks a lot Sir. Thanks for the candid answers.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from PL India. Please go ahead.

Amnish Agarwal: Congrats on a good set of numbers. I have a couple of questions. My first question is that as far as the demand is concerned like you said it is going to take much longer this time around for the demand to come back, but what sort of a sense are you building because Kansai I think depends more also on the Tier 2 and Tier 3 cities so do you think that 1Q this year

will be closer to where we were say in 1Q of FY202 or still you can say it is too early for you to say? It depends on based on one month number which you might be having?

H.M. Bharuka:

It is very difficult actually to comment looking at the very uncertain environment right now but to be very frank with you, we started the year on a very positive note and we have actually built up a very positive case for a growth and normally April is a big month so first 20 days of April was very good as I mentioned so may be that will cover the shortfall for us which is going to come going forward. It is difficult to say how long this is going to last. May and June is not that big month compared to April so to that extent we would say that since three weeks of April were on, I think that would have certainly covered the drop which we see in May and June. So let us wait. As I have said we are still hopeful and positive because looking at whatever GDP growth which has been planned more than 10% may be marginally reduced now if it really happened that there is no reason why paint industry should not do better than that.

Amnish Agarwal:

Sir my second question is on the raw material front? We have seen 410 BPS hitting our gross margins? Although the pressure is there, but if I look at say last five to six years were better? Bottom in any quarter in gross margins has been roughly around 52% and we are already at 54% so can we assume that we have already bottomed more or less in terms of gross margins, or do you see a possibility of the gross margins even going down from here even though you have taken small price increase towards the end of March?

H.M. Bharuka:

I think I tried to answer this question. The margin all depends upon how the demand is, how the industry is behaving, and how the customers are doing and what is the pressure raw material prices and also what internal improvement and value engineering which we keep doing it. If you look at Nerolac do not look from let us say few quarters or one or two years. Look at the last 20 years performance where we have been continuously improving the margin even though there are quarters where there was a dip, there are years where there was a dip, but if you look on a 20-year cycle, I think we have been making the improvement. So that is the way to look at it rather than looking at what will happen in quarter or this year. It is difficult for me to comment. As I mentioned the endeavor of management is to ensure that we take care of all stakeholders including our customers so some time when do not do pricing increase or we settle for a less price increase it is purely from a long-term perspective looking at our customers saying look right now the customer is also in trouble and we need to help them. Even on the customer front, I think it is our responsibility also when the income level from the consumers are going down, how can they ensure that we help the consumer so we also have some social responsibility apart from the financial responsibility towards the shareholder, I would say. So I would look at all the ankle and then decide look what would be our strategy when it comes to margin, but certainly the endeavor is to ensure that we protect our margin and we improve our margin.

Amnish Agarwal: So very nice gesture from Kansai. Sir just a final question that Kansai has always been strong in the mid to mid premium segment in the decorative paints and we have emphasized a lot on the Soldier segments and the market incidentally has done quite well when it comes to the economy and the lower segments? So how far we have been able to crack this segment in the past couple of years and are we gaining share particularly the economy and lower segments in the market? That is the final question Sir. Thank you.

H.M. Bharuka: You are right. I think we have been strong in the economy and the lower segment; however, last year industry a lot of new products were also introduced in this segment where we were perhaps I would say slightly late. I must admit that; however, in this year in the last two quarters, we have introduced lot of new ranges in the economy and the premium segment which is what I am talking in my presentation about the differentiated products so perhaps we are offering at value for money much lower prices and perhaps equal to what competition is offering on the premium category so we hope that that is going to give us the help and we should be able to improve on our topline with that.

Amnish Agarwal: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Good afternoon Mr Bharuka and team. Thanks for the opportunity. I have three questions. You mentioned that the urban counterpart is very, very cautious about getting painter in the house? Could you talk something about the rural part because most of the companies so far you have said rural to a certain extent is less affected? In your experience how things are happening in rural part if you can help me to understand?

H.M. Bharuka: As I mentioned, you need to look in the context of this scenario which we are in. Rural even urban came back last year and that is why the entire year despite entire washout of April, which contributes a big to sale if the industry was able to achieve a big positive growth, I think it clear indicates that rural as well as urban came back very fast; however, right now we are talking in a scenario where everything is virtually shut and I do not expect whether it is rural or urban anyone calling as of now a painters and doing the painting. It does not mean that it is zero but let us accept that this is a scenario when you talk anyone, one of your family or friends have been affected and there is a fear which is going on. In this scenario, who is looking into all this painting as of now, so I think let us admit and accept that present scenario is not a good scenario to speak what will happen. Does that mean, it is going to last forever? Certainly not, I think I am hopeful that this wave also will vanish quickly and we will come back to the normal economic activity, and this industry will bounce back because this is my last 20 years experience that there are lot of problem, but still we have remained positive, I mean for your information, we have completed 100 years,

I mean, what I hear to complete 100 years, but we have completed 100 years, now in 1920 also we were dealing with the pandemic and now in 2020 also we are dealing with the pandemic. So, there would be a year, quarter where we will have a problem, but I do not think, we as an investor or we as a shareholder should look what is going to happen in the next month or next quarter, I mean, let us look from a longer term perspective, nothing has changed.

Shirish Pardeshi: I complete agree. Experience is there and I respect your thoughts. Clearly, from the distribution you mentioned that supply chain disruptions and the leader point, which are now there, so, in your assessment, what percentage of dealer shops are open say now and maybe which would open in the first week of April?

H.M. Bharuka: Virtually 90% are closed. So, 70% of my depots are closed. 30% depots are partially opened between 8 and 11 wherever it is allowed, but shops are also open for two hours, three hours, some sale is taking place, small orders are tickling in, sometimes it becomes very difficult to service those orders, how do you supply small order in remote locations, so these are the supply challenges, which I mentioned is coming in. So, even if business is there, are you in a position to supply, do you want to supply, what would be the cost of supply, so I think, these are the issues which we are grappling with right now, but despite that as I said, if there are orders, if you were to service, even at the cost, I think, we are servicing wherever it is possible.

Shirish Pardeshi: My last question in your thoughts, what is the current inflation, you are facing separately on decorative and industrial and how much price offset you have taken so far?

H.M. Bharuka: If you look at the current inflation, if I look at April, it is almost close to about 13% to 14% and we have taken about 2.5% price increase which takes care of let us say 5% of inflation. So, we still need to do. The industrial increase is slightly higher and almost 3% to 4% price increase we have taken so far and I think further price increase is around the card and we expect, and I do not know whether we will be able to compensate fully, because what is happening is when I am approaching my customer for a price increase after a week, I find my cost has gone up further, so you cannot approach your OEM every week, saying to look I need to get a price increase, so that sort of dilemma is there right now. We hope as I mentioned that these prices are hit and they will also come down because I do not think it is going to last, even though there are economies like U.S., and China is doing very well, but look at commodity prices, are they going to last? I really do not know, I have my doubts, because demand is not that great that commodity prices which have risen by 40% or 60% for them to last. So, let us wait. According to me they will come down. There are lots of force majeure also which are working right now. Once they are also lifted, maybe there would be ease of supply and prices will come down.

- Shirish Pardeshi:** Thank you Mr. Bharuka and I pray to God that quickly to come out of this challenging situation very quickly. Please stay safe and healthy.
- H.M. Bharuka:** Thank you.
- Moderator:** Thank you. The next question is from the line of Avneesh Roy from Edelweiss. Please go ahead.
- Avneesh Roy:** Thanks for the opportunity. My first question is on the technology tie up which you mentioned. You said that not just from the parent, you also are getting from other country units, Turkey, etc., so now paint has seen a lot of innovation last decade anyway. So, was this a general statement on your capability or was there any real technological input on the product innovation size or on the distribution side from any of these countries, which are much smaller than India, at least from a country demand perspective?
- H.M. Bharuka:** If you look at our auto refinish paint, we have a technology from Kansai at the top end of the product whereas the Kansai technology was not working for a mid range because that was not suitable here. So, we got the technology from Turkey, Altan which is a CARDIA technology. This we just introduced about three months back in the market and within three months, we have installed about 200 machines in the market. So that is one technology which I am referring. Second is when I talk about Helios from Europe then we are able to get technology on the railways and the high technology on the core sector. So, there are specific product related technology which we are able to give them because Helios is very strong on the performance coating and they are leader in the railway segment in Europe and they have a far better product and also because there are a lot of European companies in India, earlier perhaps when we used to refer to Kansai people used to think only of Japanese, but now since we can get a European technology it will help in tying up with the European customers in India for us. So, that is what I meant.
- Avneesh Roy:** That is helpful. My second question is on Construction Chemicals and Adhesives some of the other paint companies already has a decent presence there, so you have also entered this. So, my question is are you not a bit late and what would you do to overcome that? Are you going to focus on all your current markets in India and there is also presence of Pidilite and the market leader in paints, so will you become real relevant player in these two segments?
- H.M. Bharuka:** Yes, you are right. We were late to be very frank with you, I do not think, initially we thought that we would like to enter into this sector, because there are already giants which are sitting here and maybe it would be difficult for us to compete. However, if you look at the product which have been introduced by the market, are different products than what is available today by the leading competitor today and to that extent, we have replaced, industry has replaced, when we say we, industry has actually got some different product,

which is giving you extra market share because you are able to coat surface or exterior with a waterproof coating and then the paint coating to prevent the water surfacing into the building. So, this segment is a totally new segment and as I mentioned this has opened up the opportunity for the paint dealers and the paint industry and we never thought of this and that is why it took time for us to introduce. So, yes, now we have entire range available, so certainly we will look into the entire distribution and how do we win the market even though we are late, it will take some time for us but we will catch up, number one. Number two, coming on the top end of waterproofing on the Construction Chemical, where the other market leaders are there, yes it will be difficult to compete with them, because it is more project based business, but that is where we acquired Perma Construction which is into those segment, the products are equally good, what is available in the market; however, you need to build your brand strategy and the distribution strategy, which will take time, so what we have done is both on Construction Chemical and adhesives as I mentioned in my presentation that we have reorganized everything and we have created a business focus so there is a separate team, which is working rather than burdening with the existing paint team. So it will have some impact on the cost, but at the same time, if we have to grow, I think, we need to have a separate team with separate mindset and separate focus, which is what we are trying to do to ensure we catch up what we lost in the last two years; though we may not be able to perhaps right now compete with the leaders and we will be relevant player to that extent, but I think even when we enter is to ensure that we at least will get reasonably good market share from an international standard rather from an Indian standard, where you are looking at 40% or 50% market share.

Avneesh Roy:

Last quick question, Grasim has announced entry a few months back, so more time has gone, so here the numbers in deco so what would be your response? Do you see any meaningful change in your strategy? Do you see a big risk on your growth numbers? Market share I think, every player will (inaudible) 45.04, but in terms of growth do you see the industry getting expanded because of that large corporate entry?

H.M. Bharuka:

It is very difficult to say but let us accept that as far as we are concerned, we take all competition seriously whether a big competitor or small competition. Also the fact on the matter is in the past, a lot of companies have entered this market and many of them have not done well or they reach a particular size and after that perhaps they are not able to grow. Number three, we know the penetration level in India is still very low and there is enough player, enough opportunities for new players to enter into the market and I have been always of the opinion that more the players, more the noise and market will grow faster. So, I hope that market is able to grow and it does not affect the existing player, but it is possible that it may effect. I mean, it is only time will tell and every company will try and protect the market share. So, let us wait and watch right now. Too early to make any comments, but I welcome all the competition, I do not think, I would not say we are not worried, I would say

definitely we need to take that into consideration in our strategy and as and when we see an impact, we will decide what actions are required to be taken, we will take.

Avneesh Roy: That is very helpful. Thanks a lot for the opportunity.

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

Avin Mehta: Thank you for the opportunity. First, I just wanted to get a bit clarity on the near term especially on margins, Sir we have a) from a gross margin point of view, would it be fair to expect contraction in the first quarter given the low cost inventory is no longer present and then subsequent improvement? If you can answer then I will ask the followup.

H.M. Bharuka: It is possible. As I said cost increases are tremendous. It is possible, but more important for us is to look at the sale first rather than looking at the margin. So, if sales are there, then I think we will be able to take care of the margin, but if there are no sales, it has lot of other implications, like the overheads, which on shortage side which will obviously bring down the margin. So, I think, let us first wait and see that how fast we are able to get back to the normal sale, I mean fortunately for everyone, last year first quarter was bad, right? So, I do not expect that this year, this quarter would be as bad as first quarter of last year.

Avin Mehta: Fair enough Sir. Just the second bit, FY2021 essentially shows how you have been able to use cost control measures quite effectively despite the sales weakness. Now would it be fair to say that the ability to do something similar exists or is it lower now given a) the cost inflation and if there is lesser room now, how should I look at that part Sir?

H.M. Bharuka: If I fail there is no opportunity then I am not required, so I would always say that there is always an opportunity. Nothing is impossible and every year we have been able to reduce the cost not only for us, but also even for our customers, and we look for a new technology that is what is our strength, our overheads are lower than the competition for last almost 15 years and they have been able to retain our market share in auto mainly because we have been able to carry out lot of cost reduction activity for our customers. So, I think that is our forte and we hope that we are able to do it. I will never say it is not possible. There is always a scope, but it is possible, you may not be able to achieve in one quarter or one year or two years, but I am very confident that there is a scope and we will do it.

Avin Mehta: Sir, where I was coming from is there a target that you have in mind or you do not kind of keep some annual targets? Anything of that sort you have in mind or we do not? That is what I was trying to understand.

H.M. Bharuka: Look, difficult for me to make any statement as far as target is concerned. I think, you should read from the perspective that endeavor of the management is to protect the margin or improve the margin. So depending on that call will be taken as to what do we do? Suppose there are no sale, what target I give is going to have a result, because nothing can be done. I still have to pay salaries. I have to still pay power bills unless government says we are going to waive of your power bills which they did in the last year, so far nothing has been done because government is saying we are open, so you continue to work, operate. So they will charge the minimum power bill to me, I will have to make salary payment to them. So these factors are totally not in my control for me to make any statement.

Avin Mehta: Fair point Sir. Second bit essentially is on this presentation talks a lot about initiatives to improve digital portion, and essentially to improve facility. Could you share how do you kind of compare with respect to peers because we unfortunately have a limited understanding of how we should rank you? Is this kind of taking us ahead and the top two, three players, maybe the second player or is this, how do you rank this if you have an internal ranking?

H.M. Bharuka: Jason, would you like to take this question?

Jason Gonsalves: If I look at the last 20 years, I think, we were not ready to what the others in the industry have done as far as IT or digital is concerned. So, if you go back right to 2000 a lot of ERP when nobody in the industry had an ERP system and subsequently every two, three years, we have been continuously investing in newer and newer technology in IT because we believe both the supply chain whether it is the industrial supply chain or the decorative supply chain or both the customer groups, require completely different solution and we have to be on top of it and we have to be competitive. Now similarly in the digital space, we entered very early in 2018 when we got into the SAP Leonardo Platform or implementing Machine Learning. So I think when it comes to taking digital initiatives, we have our own roadmap, we have transparently shared it last year also in terms of what we want to do and how we want to do. Now our comparison is how we would do it, so that it internally helps us serve our markets and customers better.

Avin Mehta: Last question from my side and this is to Mr. Bharuka. So you have seen this company through multiple new years, you have seen this kind of grow, but one thing that I noticed is this Board meeting did not have any mention of the reappointments. Sir, I wanted to kind of get your thoughts on that and if any kind of comments on that point? That is all from my side.

H.M. Bharuka: Would you want me to go or continue?

Avin Mehta: I want you to continue.

H.M. Bharuka: It is not in my hand, my dear. I mean I have still one year to go. So, it is for the board to take a call should I continue or not continue, but I think forget, that is not important. For me as a leader, what is important though I have a second line ready to take over and I can tell you guarantee we have a good second line, not one person, but many people who can takeover? I mean we have three people who are there with me and they all have been in the company for years and they have a very strong background. They are all trained in all the functions. In fact, they do the job. I do not do it. I do only talking. So credit goes for whatever improvement it is to them. So, even if I am not there and if they take the chair, I will tell you the company is going to perhaps do better than what it has been doing so far. So do not worry about from that perspective.

Avin Mehta: That is all from my side. Thank you very much. Thanks a lot.

Moderator: Thank you. The next question is from the line of Varun from IDBI Capital. Please go ahead.

Varun: Thank you for the opportunity. Sir just wanted to understand now that we have very aggressive competition from many new players for example Indigo Paint and new firm Grasim, what do we see lot of aggressive investment and value innovation being done through distinct way I mean the way we always operated the business. So for example, tinting machine there have been a lot of new innovation which is being done now you do not need a separate computer to operate the machine, etc., so just wanted to understand your view that how do you see, specifically if you can talk about competition from Indigo Paints in decorative coatings, will the reasons for Indigo Paints has become very, very strong and secondly, how are we addressing this value innovation been created by the new aggressive players who are coming into the system and trying to create a business out of them, by improving service quality to dealers?

H.M. Bharuka: I would not like to comment on this specific competition, what they are doing. Every competition has their own strategy and we have our own strategy and we do take in consideration, what each competitor is doing and as far as you know players are becoming aggressive or they are doing well, I think every player has been aggressive every year. It is not this year and there are a lot of new players who got entered into India even from abroad or players in India they have entered. So, those players will come, players will go, some will not survive, somebody will perhaps survive. As I said, there is enough opportunity for everyone to come in and grow, do well, and initially I think growth for them would be better because when we reach a particular size then only the issue starts and as far as the innovations are concerned, I do not think any of the industry player is not aware of what is happening and what needs to be done and sometimes it is not necessarily innovation, it is how do you communicate with the innovation. So, I think, let us wait and watch on this. Have a confidence in the company that whatever is required, the company will do, will not

allow any advantage to go away. If we have to compete, somebody win the competition and if we need to copy, we will copy. If we have to do better than them we will try and do better than them. So, we are conscious of that and I think we will ensure.

Varun: Thanks for the inputs. Just wanted to understand is there any disruptive change in the way on the tinting machine?

H.M. Bharuka: Nothing. No change so far.

Varun: Thank you very much.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thank you for the opportunity. Sir, first question is as we spoke on April demand and since this wave has not been consistent across the nation, was there any geographical divergence in terms of the demand recovery or demand trends in April?

H.M. Bharuka: April across I think these geographies did well.

Tejas Shah: Sir, in between these two waves, we had a very robust recovery and real estate market. Was there any reflection of the same in terms of fresh painting demand or in terms of new houses or metro centres demand which you can call out?

H.M. Bharuka: Exterior painting or the project painting which were stalled, I think, that definitely picked up, so urgent business was definitely better in the last six months compared to the six months.

Tejas Shah: You said, you do not participate aggressively in that, any reason? Are the margins are not lucrative?

H.M. Bharuka: No, I think, it is a question of there are various markets and if I had resources, perhaps I would have introduced everywhere and I would have put separately every year. So, we need to look at, of course margins are not very impressive there and we supply the same product what we supply to the retail compared to perhaps some of the other companies who supply different product to the project. So, we do not differentiate in our brand, so we supply same product to the exterior and the margins are very compressed and we need a separate team over there, where we have product with very low profitability is very low, but for this reason, they were not focusing, it does not mean that we do not do project business, so we segregate wherever we feel it is profitable for us to do, we concentrate, rest of the business, we leave it.

Tejas Shah: Fair enough. Sir any number you can share on dealer footprint count as on March last year and any plan of expansion this year?

H.M. Bharuka: Last year to be very frank with you, the distribution has not increased purely because you know it was very difficult for them to go out and open their dealers and even the dealers were not interested in perhaps opening or working with the competition because it is not possible for even network to have three or four companies supplying them. So, our instruction to our team was to have a safety as a priority and go as much less to the market as possible and get the order from the firm rather than going and expanding the market. So, for me safety of my employee was priority to be very frank with you rather than looking at the business. So, my expansion has not taken place last year, maybe small number would have gone up, but it was tepid growth in the distribution.

Tejas Shah: Hypothetically and hopefully if second half we are out of this crisis so, the way we see pent up in demand from consumer side does it happen in dealer expansion also that you have a backlog of about 15 months, 16 months, and you expand very rapidly in six months period or it does not work that way?

H.M. Bharuka: No it does not work that way. As I said, as far as we are concerned, maybe there is dealer count of another 20000 available for us to take but then we have to look at productivity. That 20000 will not come, the productivity would be very low, expansion will not be there, so my cost would be very high. So, we have to balance between the distribution as well as my profit margin. So, that is how we look at it to be very frank with you.

Tejas Shah: Sir, you made an interesting comment on the previous question's answer that all this competition, which comes, they re-circumcise and then they plateau so usually what is the size after which they start facing challenge in your experience?

H.M. Bharuka: I would not comment on that. It depends on each player. To be very frank with you, you know very well, what has happened and it all depends upon how deep pockets you have for you to survive. I mean look at some of those players, how much profit they are making after how many years they have made a profit and some of the players who are going to invest heavily what would be their ROI and ROCE and as an investor if you are tracking we will track those companies and will give dividend those who benefit. I mean that market is irrational sometimes. Existing player sometime is not favored, and the new players are favored in the market. So all these new IPOs are coming, perhaps I have a higher P/E compared to the existing players. It does not explain the logic, only you can explain to me. It is difficult for me to tell. I should be asking you this.

Tejas Shah: We are equally short of that. Just last one if I may squeeze in. Sir, you spoke about market share gain in industrial segment. So, is it wallet share gain with the existing client or we added new clients in OEM segment?

H.M. Bharuka: It is existing client also and new clients also. So, I do not know, because we are either 100% supplier or big supplier to many of these clients so new clients have also come and existing clients we have been able to increase the market share?

Tejas Shah: Thanks a lot Sir. This is very helpful. All the best.

Moderator: Thank you. The next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.

Prachi Kodikal: Good morning Sir. Thank you very much for the opportunity to ask a question. Sir, in the presentation you have mentioned one of the levers of improving your profitability would be change in the business mix or product mix, so over a longer period of time, say three or five years is there a particular businesses that you are targeting internally that you would like to reach and even in terms of product mix, which particular category of products do you think would be the key levers for driving this profitability? If you could just talk a little bit about that?

H.M. Bharuka: Anuj would you like to answer that?

Anuj Jain: When we spoke about the business as you said that we just entered the range of Construction Chemical, where we have introduced the complete range of products, and if you see the market size of the Construction Chemical, and if you relate it with the overall paint size it is about 10% to 12% Construction Chemical. So, we have started but over a period of time, today the Construction Chemical is a steady range of product with the retail dealers. So, I think, this is one category which will move up over a period of five years and also if we look at some of the other new categories and when we talk about the product mix, there are some new products which we introduced, which are very differentiated products, recently we have done that. One is like Beauty Gold Washable. This is anti-bacterial and is also an excellent product in terms of washability. The other product is Suraksha Dust Resistance. Now these products are very differentiated in the sense that they are opting a far premium benefit at popular prices, this is something unique differentiation which is currently not available in the market place. So, we believe that some of these differentiations we have made for the new categories is what we have introduced now and as Mr. Bharuka was mentioning that dedicated team for most of the new initiatives that we have put in the market place, these mix will improve in the coming years.

Prachi Kodikal: Any number that you have in mind over a three year or five year period as to...?

Anuj Jain: We have it in mind, but we would not like to speak about the numbers, but these are some of the initiatives and obviously as we expand this range, the contribution of salience of this mix will go up.

Prachi Kodikal: Sir, you talked about the Construction Chemical. So, is it fair to assume that the Construction Chemical business is more profitable or in the profitability sense it is slightly better than your existing business that you have, the existing category?

Anuj Jain: Construction Chemical is almost 7000 Crores industry in India and there are two parts, one is hand mixture, which is mostly through the cement and another 3500 Crores is from the kind of paint dealers and there is a lot of range, but I think the product what we have introduced, if not better, at least they would be equal if you compare with the paints and other products.

Prachi Kodikal: Those were the questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, last time, when the COVID first wave happened, so we had peaked at around 97000, 98000 cases and when the cases dropped to below maybe 10000 or 12000 then the economy was completely rebound, I mean the consumption literally restarted. Now the number right now is 4 lakhs new cases, so if 4 lakhs has to go to 10000 or 12000 or maybe 15000, so still it may take a lot of time, so considering that the wave may remain longer or even if we peak let us say in May still going down to below 20000 cases per day will take some time. So, what are the stage that we can take so that the damage is minimal and what are the major cost saving initiatives that the company may work this time? I agree last time also, last year also you had done multiple cost saving initiatives so what are the additional cost saving initiatives that the company is working on. That is point one. Point number two is the unorganized sector has been continuously getting impacted, demonetisation, the GST, then the COVID wave one and now COVID wave two, so a significant impact might be there. So, there will be opportunities to gain good amount of market share at least in decorative paints. So, what are the plans the company is looking at to gain additional market share also. That is it. Two questions from my side.

H.M. Bharuka: I am not sure, whether this analogy really works that last time when the cases came down to 7000 or 8000 market, economy got refund and the demand came back. I mean, last time even when the cases were virtually 8000 we started the lockdown. Today even after 4 lakhs cases, the central government has not announced this lockdown, and state governments are also announcing the partial lockdown and allowing factories to remain open. So, I think it is a case by case, difficult for me to make comment that when the

economy will get open. It is more than the government what is in the mind of the consumer. If his fear is much higher than the fear which was there earlier, number one. Number two, why would you need to impose the lockdown even then the cases were 3 lakhs, I think, the lockdowns were not imposed, people were freely moving around. So, lockdown did not affect them or the cases did not affect them. So I think it is a mindset of the people and the government concerned what they would like us to do, difficult for me to make comment as a business person on what will happen. So looking at this, I really do not know whether it will be peaked out in May or June or it will go beyond even two months. As far as internals are concerned, certainly as I said, we will ensure whatever cost reduction which is possible, but there are limits when you have no sale, but for example, we will close down the factories, we will try and reduce the utility cost, supposing it is going to get prolonged, because there would not be any demand; however, we will just have to wait. So, overall the advertisements we may reduce if there are no sales. I think these are the only measures which we can think, beyond this, what we can do. I mean even the raw material prices are not in your control, let us hope that the demand goes down ultimately raw material prices will also go down, so this will perhaps take care of the margin. So, it is all economics logic to be very frank with you what is going to happen.

Aniruddha Joshi: Sir, last time, I guess, there was a little bit postponement of some of the capex. Is there any such thought process with the company or we will go ahead with the mentioned capex as per the presentation?

H.M. Bharuka: Existing capex will continue because this capex is more for cost saving. It is a multiple integration for producing the resins and the intermediates, so this capex will continue because it will help us reducing the cost.

Aniruddha Joshi: Thank you.

Moderator: Thank you. I will now like to hand the conference over to Mr. Manoj Menon. Thank you and over to you Sir.

Manoj Menon: On behalf of ISEC we truly want to thank Mr Bharuka, Anuj, Prashant and Jason for taking time out for an 80-minute call almost. Most importantly thank you for patiently responding to all the questions from the analysts and investors. Thank you Sir. Thanks everyone. Have a good day. Over to management for the final closing comments if any!

H.M. Bharuka: Thank you very much for all the participants. I know it has been very tough environment right now, but I think we must be happy that at least the market is doing well, the financial market is doing well even if the industries are not doing well but we hope that soon the industries are also able to catch up the financial market, but most important is safety. So,



*Kansai Nerolac
May 10, 2021*

please remain safe with your family. Thank you very much for attending KNPL Call. Please keep joining us and please keep also educating us. Thank you.

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