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Dear Sirs,

This is further to the intimations done by the Company on 9th May, 2022, 11th May, 2022 and 12th May, 2022 with respect to the Conference Call hosted by the Management of our Company on Thursday, 12th May, 2022 at 11:00 hrs India Time to discuss Q4 FY 2021-22 Financial Results of the Company.

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 Paints Limited
Q4 FY2022 Earnings Conference Call”

May 12, 2022



ANALYST: MR. ANIRUDDHA JOSHI - ICICI SECURITIES

**MANAGEMENT: MR. ANUJ JAIN - MANAGING DIRECTOR - KANSAI
NEROLAC PAINTS LIMITED
MR. PRASHANT PAI - DIRECTOR FINANCE - KANSAI
NEROLAC PAINTS LIMITED
MR. JASON GONSALVES - DIRECTOR CORPORATE
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PAINTS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Kansai Nerolac Paints Limited Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks, Diksha. On behalf of ICICI Securities, we welcome you all to Kansai Nerolac Paints Limited Q4 FY2022 results conference call. We have with us today Mr. Anuj Jain - Managing Director, Mr. Prashant Pai - Director Finance and Mr. Jason Gonsalves - Director Corporate Planning, IT & Materials. This is the first call of Mr. Anuj Jain after he became Managing Director and we are glad to host him for his first call as Managing Director, so heartiest congratulations you Sir and over to you!

Anuj Jain: Thank you so much for your wishes. Good morning everyone. Thanks for joining this call, which is for Q4 of financial year 2021 and 2022. You all have seen the result, but I will give some commentary and then we will come to the question and answers. So, during Q4 we recorded a top line growth of 4.2% and for the year the growth was 24.7% top line. If we look at only for the quarter decorative value growth was almost flat and volume growth was negative. During the year, we had some loss of market share in decorative and we gained market share in industrial segment. Decorative where we had a loss of share we feel that the reduction in marketing and promotion expenditure over the last two years has affected our market share.

In terms of other highlights of the quarter, it continues to witness inflationary pressures along with the volatility in crude and exchange rates and overall inflation you all are aware every quarter we are talking about it, has been unprecedented during the year. Now in the situation as we spoke about for the Q4 and for the annual where we had a problem related to our margins in industrial where the inflation is relatively higher than if we compare with the decorative and also like more price increase taken while industrial despite the price increase we are not able to mitigate the inflation, I think clearly we have two task in our hand, one that in industrial which is the strength area we have a good market share, we are on the increasing trend, so we like to continue our focus in the industrial to see that how much better we can achieve, but I think the major problem which we talk about how do we get margins in the industrial, so one obvious effort in getting the price increase which last year also we have taken a good price increase, but still not able to mitigate the inflation so one that we will continue to ask for more price increase, but other than that what can we do so that we are able to better our margins. So one action what we are doing in automotive extending technologically superior products such as monocoat medium solid, which we

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have started introducing to more number of customers because there we can get a little better margins. In the other non-auto part, performance coating business we are increasing our focus to high technology premium range of products where again relatively the margins are better and the lower end items where the margins are severely impacted there we will play low and soft.

In coil coating, which we introduced few years back and there again the margins are tremendously under pressure, we have been able to build now the product with the better technology and the appliance segment where we were not present, but we have got the approvals and we started supplying in the appliance segment where the contributions are better. Even in powder coating where we are market leader and we have a good share in the popular segment and economic segments, but our share is relatively lower in the premium segment and the functional coating, so that is another area of focus where we have some new products in the functional coating and we are increasing our focus in the premium range.

So, these are some of the steps which we have taken in industrial and we pursuing this step to see that to what extend we can better our margins. Coming to decorative, we spoke in one of the conference I think two quarters back of our new strategy and you know what exactly we are doing, so I would like to give you some brief about that and we have started rolling it out in the last few months, so one is the new brand expression which is about Nerolac paint plus, the paint plus is all about differentiated products which are available in the market at a differentiated price point, these are the product with additional functional benefits so one of the product which we started last year was beauty gold washable, but now recently we have added mica marble sheen and stretch we are on air with the campaign of mica marble sheen and stretch, we have launched last month Impression Kashmir the PU enamel, high end exterior is in pipeline and high end waterproofing.

So, these are some of the products which we are launching so lot of new products are coming out in the market, our focus would remain to add more products in the premium and the super premium category and the some products which I have mentioned belongs to this category, so having said that paint plus and the differentiated products now we need to communicate to the market consumers that we have differentiated products, so we are increasing our communication through advertising and digital marketing, and the communication will be focused on pain plus, which is a differentiated expression Japanese technology because we are different in that regard and the jingle which is very, very attached or unique to Nerolac so these are some of the areas, which give us the differentiation for the competition, so we will focus on that and for the communication as I said that reduction in marketing expenditure has impacted us, so we will keep a share of voice which is equal or better than our market share at least that share of voice will remain

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and whatever the market intensity changes accordingly our share products that we have are targeting which will remain.

The next step is that building the market development structure to generate leads from sites and influencers because one of our aim is that in the market from the dealers when we check they are ready to increase the sale you know if you increase the demand so one part of the demand is related to the consumer, the other it is that market development by generating more leads which increase the business with the influencers also so to that extent we have created the team and expanding it rapidly in the market to create the demand. We have had an influencer program, but we started going aggressive on that with the acceptance of the digital Pragathi app, Pragathi is the name the our app which we introduced and it took some time for the adoption of digital, but I think now we are close to the maturity stage and it offers instant benefit and the disbursement is fastest in the industry what we have been able to establish in the last few months and we will try to leverage and encash on this advantage.

With this on track we have started tracking the secondary sales from the dealers which we were not doing in the past, so that we know that when we sell how much is liquidated and therefore it gives us advantage in terms of how much further we can sell. In that sense you know related to the paint plus and the communication and the market developments with all these activities now we want to see how much better we can increase our reach in terms of distribution and therefore, we started placed some dedicated team to open the direct distribution and new distribution models which I think in one of the conference I spoke about where we are launching preferred models and some distributor model that is also started.

Next part of our planning is institutional business so the project business where we were weak and today there are about 50 towns where the project business is quite good and growing faster than the retail and that contributes almost 70% to 80% of the total market, so we are expanding our reach, we have expanded our reach and we are reaching to all these towns where the institutional business is good with the right team. In terms of new businesses construction chemical goods and partly adhesives where we were the late entrant but you know that whatever has been done last in one or one-and-a-half years, now we have been able to catch up and our range is complete. In wood coatings also we had tied up with ICRO and we had a launched out a different arrangement which we started rolling out from the month of March and April, so now we are fully set and we believe that our growth would be definitely in line or better and we are targeting the salience of more than 5% through these new businesses.

In economy category we had in the past introduced the Soldier brand, but then in the entire industry there a lot of new products have been introduced in the economy range and in the

main brand we also have completed our complete range as a part of the economy. In economy now we have the range in the Nerolac and we have range in the Soldier and that basically we are going to leverage to see that what shift is happening from unorganized to organized we are able to encash on that. The advantage there would be that there is a range in the Nerolac, there is a range in the Soldier and in the Soldier you know that we are targeting absolutely additional distribution or different distribution and that can give us the advantage.

We will continue to take price increase wherever required to mitigate inflation to that extent in the solvent base after this crude oil prices have gone up, there is a more requirement of price increase which we have announced in the month of April, in the solvent base, we initiated the price increase in the market and one more thing to add in decorative is that we ventured into service with five days painting proposition, so this has been existing in the industry for many years, but I think somewhere we started around 2000, but at that time we estimated that services will contribute good to the overall business in ten years' time and maybe at the time it has not picked up, but in the current situation or the changing behaviour related to pandemic we do see that you know the future business will pickup, so we have made our preparation and we piloted and launched this services and will be expanding going forward.

Coming to the other point our focus on ESG would remain in fact we have done a lot of activities and we have been acknowledged by a lot of bodies that we are doing a good work on the ESG, which we would like to continue our focus upon and there are initiatives in terms of how to enhance our service levels which we have taken specifics of the weaker markets that also work will continue.

Coming to the financials, as we said the growth is 4.2% for the quarter over the corresponding quarter of the previous year and for the year it is 24.7%. When we look at EBITDA it is down by 59.9% in the Q4 and for the year the EBITDA showed the de-growth of 23.3% and during the recent board meeting, board has recommended a final dividend of 100%, which makes the total to 225 against 525 over the last year, but that included 200 special dividend, which we have given in the last year. So this is from my side and now I welcome all of you for the questions.

Moderator:

Thank you very much. We will now begin the question and answer session. We take the first question from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh:

Thank you very much. Sir, my first question is on gross margin and raw material inflation, which is out there into the system, so how much of price hike you think we must take going forward to offset the inflation maybe in this quarter the quantum of price hike that we have already taken, if you can give some guidance or understanding around that?


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Anuj Jain: Thank you, so if I look at it, there is a two part of the business, in decorative last year we have taken approximately 21% price increase with that increase mostly we look at waterbase emulsion and waterbase product more or less it is covered maybe another 1% or 2% will suffice, the problem is in the solvent base you know because the crude oil prices has gone up substantially so there is a lot of inflation in the solvent base products and there we need a higher price increase and we have taken already a price increase in the range of 3% for the solvent base items and we need to take more, but we will have to wait and watch because in today's situation it is very difficult to forecast that where the crude prices would settle, but if it settle say above 110 or 105 or 95 the various scenario I think we have to wait and see that how do we cover pricing related to this trend. In the industrial category where the solvent contribution obviously in the industrial category is mostly dependent to solvent, last year we have taken in the range of around 18%, but inflation is very high, so definitely we need a more price increase, but having said that it may not be possible to get the entire price increase so we have started approaching our customers once again and the automotive industry also got impacted, as of now we are trying to see that how do we create win and to what extent we are able to take and we hope that in the next one or two quarter situation eases out a little bit, but difficult to talk the numbers in case of industrial, but that will be there.

Varun Singh: Right, Sir actually where I was coming from is, currently our gross margin is rock bottom and if you look at our last 9, 10 years odd, so despite the significant amount of price hike, which we have already taken in FY2022 and what we intent to take also, so what kind of margin we should be building in our estimates with regards to a steady state kind of margin I understand that raw material situation is very volatile as well as in auto also there is a large degree of uncertainty, but if you can give us some understanding with regard to despite the price hike what should be an expected level of gross margin at business level and also if you can give understanding of what percentage of our revenue is currently from the auto business?

Anuj Jain: So, as I said I will not quote the number, but as you rightly said that our margins are already in the lower side so to that extent one can expect better, definitely in decorative, but industrial one has to wait and watch maybe that industrial is assuming the short-term, which is one or two quarters, there will be more pressure, maybe decorative will be able to compensate that, but since we are at the lower end, we will expect it to be better and the decorative and industrial breakup is 55% and 45% is industrial.

Varun Singh: Thank you very much, Sir and just one last question, on waterproofing side of the business you wish to make any commentary with regard to what we are doing incrementally and how we want to drive growth into this category?

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Anuj Jain: Yes, we have created this as a separate business segment and complete range we have available and so we have a range available in the retail segment now, we have a range available in the project segment now, and there are some special categories also, which we are planning to introduce now and for this we have created a separate business unit, we have created a team in the market and retail we got a good traction and that is why this new businesses construction chemical and wood finishes we are all set now and we expect that our growth will be equal or better to the market and we are expecting more than 5% to come from these businesses.

Varun Singh: In how much time more than 5%?

Anuj Jain: A year's time.

Varun Singh: Thank you very much.

Moderator: Thank you so much. We take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks, Sir. my first question is on your comment that you initiated price hike in April, so wanted to understand this normally in consumption market leader generally takes the first price hike, so in last say one and one-and-a-half years when paint industry has seen multiple hikes, how many times you would have been the first player to take hike and industry has taken almost 20% to 22% hike, is there any net hike which is different from this number, so has the rebating incentives increase, so net hike will be lower without taking mix into consideration?

Anuj Jain: To your first question that I do not exactly remember but I think about three times we have initiated the price increase in advance and at this time also in the solvent we have initiated price increase so this is the first part. The second part as you said schemes in the industry if you see the reports of all the company's last 2 to 3 years continuously the schemes have gone up, our schemes have not gone up to that extent, but for the entire industry the schemes have gone up, but overall price increase was around 21%, but when you look at the scheme it would 1% here or there, so only that could be a difference, but otherwise the price increase was 21% the schemes have gone up and around two to three times we have initiated the price increase before.

Abneesh Roy: So just one followup that you mentioned you have initiated price hike two to three times and your schemes have gone up much lesser than some of the competitors, so does not that impact market share I know it impacts, but why would you do that given you are currently number three player and you recognized that the market share is a talent so why you still do that?


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- Anuj Jain:** I agree that is what I commented upon it does impact, but as I said that our mix of the business to that extent we are uniquely placed that where 45% business is coming from the industrial, so it was kind of balancing approach which we did and as I said in my comment we do acknowledge, agree that this impact the price increase and therefore we need to bring some changes, but having said as I said that when we look at upscale when we initiated because the solvent prices are going up and someone has to initiate the price increase in the market. There are sometimes situations where you know that it is a matter of time whether it is today or tomorrow the pricing increase is going to come so why not you know increase the prices, but suppose if the industry does not increase the price then you have to probably come back with your rebating either you have to compensate with the other items, which are like waterbase items, which are more profitable or you have to compensate it with rebating and that understanding is there and that is what we are looking at as of now, but when the inflation is so high and your clear that price increase is going to happen then you can always take the decision to initiate it before.
- Abneesh Roy:** So my second question is on the EV part of the customer base, so you have a very strong relationship in most of the auto segments because of the Japanese parentage, etc., but now EV's we are seeing lot of start ups entering, so how you are ensuring that your lion's market share in different parts of auto paints that remains protected here, so do you see a big risk here from a five to seven years perspective?
- Anuj Jain:** No, actually all these start ups that were coming, most of the people are planning to paint it through the ancillaries and most of the ancillaries with whom they are connected with they are our customers, so we are quite strongly placed maybe one or two new startup there also we have got the entry, so we are quite as good as I would say that in the normal two-wheeler or three-wheeler, we are equally placed in the EV also.
- Abneesh Roy:** Okay and last quick question on a non-crude oil raw material, which is say around 60%, what would be your sense on supply demand equation FY2023, so any outlook on pricing you can share, I understand these are very difficult things to comment, but on the supply demand are things now turning favorable?
- Anuj Jain:** I will ask Prashant to answer this question.
- Prashant Pai:** So, on supply demand I think things are still not favorable, so there are a lot of turmoil in the supply markets so it is for the coming one or two quarters this situation will continue after that we will have to wait and watch.
- Abneesh Roy:** Okay, thanks, that is all from my side.



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Moderator: Thank you so much. We take the next question from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.

Amnish Agarwal: Sir, my question is basically that in the decorative side also I think we have lost some 100 bps kind of a market share, so what has led to the loss of market share over there and what steps we are taking to regain the lost market share that is the question number one and secondly, if you can share with us what is the breakup of volume growth for the company in this quarter on the decorative as well as on the industrial side?

Anuj Jain: So, decorative markets share loss depends on you know generally what happens is that there are four to five listed companies so whether you take base of that or you can take all the companies, but I think your guess is, okay we have lost here I think in two years and in my commentary if you have heard that is what I have mentioned the steps I would repeat in a summarized manner so one is that this new brand expansion of paint plus which get extended to the differentiated products and we are launching lot of new products, which are different in their proposition and the price point and we will be adding more product then increasing our communication through advertising and digital marketing our focus will be on the paint plus differentiated products, Japanese technology, which is very unique to us and Jingle, which is again very unique to us, our share of voice we will maintain threshold share of voice, we will not reduce it, we are augmenting this activity with the marketing development structure that is a complete team structure, which is basically to generate leads from sites and the influencers and our influencers program we have gone very aggressive with the faster disbursement in the industry, we have started tracking secondary sales, in distribution we now have team to open more distribution and the new distribution model, the project distribution business where we were weak, we expanded our reach to almost 50 to 60 towns, which contribute quite large to the institutional business and in the economy range also where the shift is happening from the unorganized to the organized there we have completed our range in the Nerolac and Soldier base, so these are brand also we have ventured into the service proposition with the differentiated services of five days so there are the actions which we have taken and we are now focusing on the execution of this action to see that you know how do we arrest the decline in this market share.

Amnish Agarwal: On the same line do you see with the new strategy any you can say uptick in the ad spend in the coming three quarters?

Anuj Jain: Yes.

Amnish Agarwal: The ad spends will go up from the normal levels?

Anuj Jain: Yes.



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- Amnish Agarwal:** Okay and secondly, Sir, if we look at our balance sheet, there is a sharp increase in the inventory, so is it the finish goods inventory or predominantly it is raw material?
- Prashant Pai:** Yes, it is primary because you saw the inflation, which has happened during there is pretty high so that has been built up the inventory has gone up, the volume wise no major increase in the inventories primarily built up by inflation mainly it is because of the inflation this is very high and that is reflecting in the inventory.
- Amnish Agarwal:** Okay, and Sir, volume growth, if you can share the breakup that how was it?
- Anuj Jain:** We do not share on the industrial part, but in decorative as I said the value growth is flat and volume growth is negative around 7 to 8%.
- Amnish Agarwal:** Thanks a lot, Sir.
- Anuj Jain:** The volume growth just to clarify that minus figure was for the quarter I was talking about only for the Q4.
- Amnish Agarwal:** Yes.
- Moderator:** Thank you. We take the next question from the line of Amit Purohit from Elara Capital. Please go ahead.
- Amit Purohit:** Sir, thank you for the opportunity. Sir, just on the strategy of gaining market share from here on, what would be the easier thing to do I mean for you to gain market share would these schemes would kind of help you to be in a faster market share or you think that a significant increase on above the line will also be required, I just want to understand, we used to spend close to about 6% few years back, so are we coming back to that kind of a scenario or do you think that largely it will be spends on schemes and second question is more on the data point in terms of your touch points currently and how much we have added in the last one year?
- Anuj Jain:** First question it is a both kind of combination because when it comes to the schemes in the market we need to be competitive, so we have to be relative, for example, depending on the brand strength if there is a X percentage being spent you know that what should we my spend just to maintain the ROI for the customers and the dealer so I think that is directly correlated to what market is spending, but for medium term to longer period, we believe that the sustainable growth come from the marketing activities and when you are giving the past reference at that time obviously we have gone very aggressive and we have been able to increase our share in which still our mind share is still good, we are still having a good mind share, so our now objective is just to keep it, maintain it and probably in last two years


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our share of voice has come down far lower than what market share we have, so it may not be that aggression what you have seen in the past related to a marketing or especially the communication or visibility, but definitely we are targeting a particular share of voice which we will be maintaining so tomorrow the competition intensity goes up so my target would be share of voice and to that an extent it may increase the marketing budget.

Amit Purohit: Sure thanks and my second on that touch points so if you can highlight what is total touch points in terms of the dealer network?

Anuj Jain: So, approximately 26000 to 27000 and generally the rate of growth is around 8% to 10% we have added in the year.

Amit Purohit: And this will all tinting machines?

Anuj Jain: No, so 80% to 85% of that would have a tinting machines.

Amit Purohit: Thank you so much.

Moderator: Thank you. We take the next question from the line of Shrenik Bachhawat from LIC Mutual Fund. Please go ahead.

Shrenik Bachhawat: Thanks for the opportunity. Sir, just one question your views on the auto segment and that is the price hike situation in the auto segment?

Anuj Jain: What is the second question?

Shrenik Bachhawat: Price hike situation in the auto segment, how much of spending?

Anuj Jain: Passenger vehicle outlook is good because last year also the demand was there, but supply chain shortages were there because of chips but gradually I think there is an improvement and as quarter by quarter the auto industry is expecting in the passenger vehicle it will be good and pent up demand is there, so I think that outlook is good. In two-wheeler last year because of the rural it was under stress and production growth was negative and maybe for one or two quarter, it will continue, but based on whatever we are seeing the agri numbers the way it has gone up and also depending on the monsoon which is expected to be normal, so I think you know maybe post monsoon the rural demand may pick up and if we consider that in comparison to the last year even the two-wheeler we are expecting a positive growth. In price hikes last year we have taken good price hike because in the stress situation if you get 18% price increase which is good, but it is not good in the sense that it has not been able to mitigate the inflation, so we started approaching because there we cannot take straight away the price increase we have to go and discuss customer by customers, which we are

doing that and we understand it is difficult, but we will be able to get something, how much it depends that we have just started focusing on that and we will have to see that how much we are getting from the industrial customers.

Shrenik Bachhawat: Sir, current prices how much price hike you would require?

Anuj Jain: Prashant, you want to answer this question?

Prashant Pai: It is a very difficult thing to answer because the things are not stable yet right, so how much to get, we know the crude oil it is always very, very volatile today it is going up and down so we have to wait for at least a quarter to understand what is the exact number which will be required because see going again and again to OEMs is very difficult, so we have to wait and watch, so basically as of now we do not want to comment on the situation because this is very, very volatile, it keeps changing, so actually we do not want to talk on that number.

Shrenik Bachhawat: So, basically about the industry I want understand newer players are emerging in the industry, smaller players are getting aggressive, newer players like Astel are getting into the paint industry, so what is your view on that for the next four to five years, how is the industry shaping up?

Anuj Jain: Good part is that you know in the paint still the penetration is between 50% to 55% and in the last 10 years or 15 years also we have seen that when the players have become aggressive in terms of communication, advertising, more number of products, the penetration has started going up, the phase of penetration going up has increased in the last five to ten years, so when the new competition comes in there will be a multiple players and good players, so we expect that overall awareness exercise will go up and that will enhance the industry growth, so that is one part and to that extent there may be a possibility that some of the players participate in the growth part of the industry so that is good part, otherwise you know that when the culmination happen and number of players goes up obviously the competition goes up therefore more innovations will happen in terms of product or communication and obviously the competition intensity would be higher no doubt about it and whether industry would be able to retain this is true the entire industry whether they would be able to retain the industry margins which we are seeing in the past which has already come down now, but I am just saying whether they will go back to that in that situation that will be a question mark.

Shrenik Bachhawat: And just can you throw some light on the innovation and product launches for the next one year and how is this compared to the other large players?

Anuj Jain: Some of the products that I mentioned like beauty gold washable, which is a washable product, which is very different product and the price is also different, recently we have

introduced mica marble sheen and stretch again a very differentiated product at a differentiated price points, these are the products which has been introduced, the Kashmir which is pure product, which has no smell very, very safe product and there is a polyethylene enamel which has almost 10 different benefits and then there is a high end exterior which we are launching which can keep the coating intact and it has self cleaning properties and there are some more products which are there in the pipeline so these products which we are introducing there is a proposition, which is different in the market or maybe a proposition which is available at a premium end, but we are making it available at the popular end at that price point.

Shrenik Bachhawat: Thank you so much.

Moderator: Thank you. We take the next question from the line of Akshata Telisara from SBI General Insurance Company Limited. Please go ahead.

Akshata Telisara: Thanks for taking my question. I wanted to understand that in your opening remarks you mentioned that you are coming up with differentiated products at different pricing points which are probably not available in the market, could you please throw some light on, I am sure you all to maintain an index kind of thing that tells you how better are these products performing compared to other products that you have and what contribution do they have to the overall portfolio, what prospects are you seeing I am sure it is too early that you just started but, any sense on how it is also going to be going forward?

Anuj Jain: So, the products what we have introduced which I mentioned beauty gold washable, mica marble sheen and stretch and impression Kashmir, all are different in terms of their feature, this is a feature lead product in terms of their proposition and pricing also we are ensuring that if some of the features are available in the market at a premium end and then can we make it available to the popular end because the way the prices have gone up in the last one and one-and-a-half years, there may be a possibility in certain market you may see some downgrading so to that extent we are trying to make it available at a price which is more affordable that is the first part, most of these products are being introduced in the premium category and in the premium you have two segment like premium and super premium and generally the value contribution in the market for this being a super premium could be in the range of 40% just an approximate figure, our share has been very low so our contribution would be quite low, market is 40% we will be far lower, but we that as an opportunity because we have a decent distribution, but within the distribution our premium category share is low so advantages that we concentrate is these products even on the existing distribution we should be able to increase the revenues.

Akshata Telisara: Thanks and also given the down trading that is been happening in the paint segment also and given that we are not very strong in the economy segment even in the premium, we are

not the leader, industrial it does not seem to come back anytime soon at least for the next two quarter, oil does not seem to settle down anywhere below 90 is what the consensus is, so is it fair to presume that the next two or three quarter will still remain at the levels at which we have seen this current quarter, which is there purely seemed nothing positive happening at the current turn?

Anuj Jain:

My take on this is that okay when you say premium, popular economy I think we are strong in popular and economic we are quite good and what we need to do in popular economy is basically it is input game that if we have a good distribution, we have an inherent demand which is there in the market, latent demand is there and if there is aggression happening in the industry you give the inputs and you are able to generate the sale, what is not so easy is the premium category, the premium category needs a lot of marketing effort and when we are talking about our marketing I think that all will be for this premium category of products so the part is like earlier the question was asked whether you will be putting in money in the marketing or the scheme, when it comes to the economy and popular range I think it is more for scheme, but when it comes into premium category it is more of marketing. Positive I can say that whatever price increase has been taken last year because in the last year the waited impact was very low so that price increase you will see a reflection in the coming quarter, coming to the growth part I think we are still optimistic that the volume growth would still be maybe single, higher digit growth and closer to 10%, so that is also a positive part and even in the industrial in terms of growth I think the overall if you combine all the segment it may still be closer to the double digit growth so to that extent the growth seems to be fine, the last year increase which has not reflected in the last quarter I think that advantage would come in the coming year and whatever actions or initiatives we are taking how much advantage we are able to get of that that will be added advantage.

Akshata Telisara:

Okay and one last question, we kind of missed the opportunity of the economy segment for nearly years because we are focusing on the auto segment which is kind of a bull run and we have tried to fill in the portfolio gap for the last two years, but even in the opening remarks I still hear that we hey are still focusing on the premium product segment by adding new products, given the penetration that it is still less can which is more going to be a demand led where you will have more of an economy led products being sold, wanted to understand why are we not focusing on that category we nearly missed the opportunity for six years now and even today we do not seem to be doing much on that segment?

Anuj Jain:

So, I think in the comment I have mentioned one more thing that we have a complete range of economy product in Soldier and Nerolac both now. I think we have not missed in last five to six year, but we missed it in last two years because as I spoke about that obviously there has been an inflation pressure, the margin pressure, what mix, so I think last two year our aggression in the economy segment was not much, but now we have a complete range of the product you have introduced more number of products and with the combination of

Nerolac and Soldier now we are poised. As I said in the economic category you need a distribution which we have, now how much aggression we want to show it is up to us, but the only change what I am seeing is that maybe in the two years we have lost and now we are clear that with this range of products available at least you know whatever growth is coming in the market that you know we will be able to get, premium what we are trying to build because there our market share is less, in the economy our market share is not so less and for the sustainable for the future for the next few years it is important, so we to start building it now, which will help us in the coming time while that for the short run we will still be dependent on the economy and the popular.

- Akshata Telisara:** Right, that is it from mine. Thank you.
- Moderator:** Thank you. We take the next question from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** Sir, just wanted to clarify the investments that you require for the decorative segment initiatives would this entail near term pressure on decorative margins because you said marketing cost budgets will go up and hence would you wait till we have stability in the industrial margins before you embark on this journey?
- Anuj Jain:** No actually because as we discussed earlier also that margins are already in the lower range and going forward whatever price increase has been taken in the last year and more or less the emulsion product the price increase has mitigated the inflation so that advantage will come and the market expenditure will go, but our take is that in this current situation we can afford to do it and so this the right time to go for that.
- Avi Mehta:** So, industrial will take a couple of quarter to bottom out, but decorative might see some impact in the near term as we initiate investments in market is that the right way to see this, Sir?
- Anuj Jain:** See, as you said in the short-term there will be some pain, but I think on the long-term basis it going to be fine.
- Avi Mehta:** Perfect, Sir, got it. So on that just the long-term bit, any guidance on the likely margins in the medium term once inflation normalizes, a sense on what is the normalized margin?
- Anuj Jain:** See, we will not give any guidance on the margins because that is not right, right now because situation is very fluid, but in the past performance right such sort of the inflation as we witnessed last maybe one-and-a-half years, it never happened earlier, so going forward one can sure look at some improvement in the margins going forward on a long-term basis and in the past performance if you our EBITDA total basis that is deco and industrial was

in the range 14% to 15%, so let us see whether we can achieve that or how fast we can do it, it all depends on the normalization of the situation.

Avi Mehta: Got it, so that would be the range that we can see but the timeline might be uncertain?

Anuj Jain: Yes.

Avi Mehta: Perfect, thanks, that is all from my side. Thank you very much.

Moderator: Thank you so much. We take the next question from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Good afternoon, Anuj and hearty congratulations. Thanks for the opportunity. I had the question of when I refer your digital technology slide you mentioned that dealer sathi app and pragathi app, so question here is that what exactly we are trying to do here if that the database or if the influencer is actually pushing the product and then complimenting the dealer sale and the subpart second question is that to your 27000 dealers what you had mention how many people you have already got under this app?

Jason Gonsalves: So, on the pragathi app basically our whole endeavor was to map the journey of the influencer and make it a direct connection between the company and the influencer earlier influencers would go through the dealer route, so this is a way of directly engaging with the influencer also like Mr. Jain mentioned in the opening comments that through this we are also able to now understand the secondary sales. Now, when it comes to the dealer app it is basically opening another channel with the dealer, which is basically digital channel with the dealer, we have given the facility for the dealers to also place the orders directly on the company and we hope that the same trend that we are seeing in other industries where the channel starts putting the orders via the digital medium that will gain traction and also to ensure that the dealer does not have to depend on the company personnel for regular input study requires to run his business on a day-to-day basis so all the inputs are given on the dealer app.

Anuj Jain: In addition when you are saying how many dealers I think as of now we have covered more than 40% of the dealer, we are ramping it fast so that we are targeting how do we grow more than 80% and actually dealer can get any information whether its related to accounts or products anything that is available with them and even if the painter as you said that you know it is also linked to the incentives what we have started giving directly to the painters, previously we used to do it through the dealer and therefore there was a time lag to tell you very frankly that if I compare with the past when we used to settle the incentive in 30 to 40 days time, now we are settling in one minute time.

Shirish Pardeshi: Any quantitative number Anuj you would like to substantiate that what percentage of business we target to get it through this app so that is in one to two years?

Anuj Jain: In terms of reach your saying?

Shirish Pardeshi: Yes.

Anuj Jain: In terms of reach dealers we are targeting more than 80% dealers should be there on the app and painters I will not count the number, but we have our database and out of that database you know that again 80% to 90% painters we are planning and we are doing a lot of activities for adoption and every quarter we are seeing so I can say that in the last one or two quarters we made quite a good progress and by June end at least every business we have a threshold that if these number of painters are available in your app at least your program has gone successfully so I think we will be quite closer to that by June end.

Shirish Pardeshi: My second question is on the market share you did mention that we have lost the share so particularly what I was looking some qualitative comment, is there any particular region we have lost more and that is why the average market share is standing at 12%?

Anuj Jain: So, actually the sale contribution is quite high from north and that is the region where we had a loss of share.

Shirish Pardeshi: The third and last question, when I see the inventory which has gone up and Prashant did offer some comments, but then when I do the channel, even channel inventory has gone up so to my understanding is that it is true, if you can comment some qualitative remarks and what was the channel inventory when the things are normalized and obviously with the inflation the inventory has gone up in the trade, so I think if you can offer some comment on that?

Anuj Jain: The channel inventory has gone up in the third quarter where there is a lot of pricing raise that happened in September-October, so channel inventory has gone up tremendously high and I think now it has rationalized, now it has come down, and I think the regular channel inventory as of now?

Shirish Pardeshi: So for us it would be in the range of about 20 to 25 days, which would have come down from 40 days?

Anuj Jain: It will be around 30 days.

Shirish Pardeshi: Okay, that is really helpful. Thank you and all the best.

- Moderator:** Thank you so much. We take the next question from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir, you mentioned that in decorative the volume decline was about 7% and given that there is 18% to 20% price growth in this segment, the value should have been close to 10% positive instead of being flat, so what explains this difference?
- Anuj Jain:** In the fourth quarter the premium growth was very, very low in fact quite negative and mostly the sale has come from the ancillary products like putty, primer and emulsion and that is why you can that the mix has deteriorated.
- Percy Panthaki:** And what is underlying reason for premium really slowing down faster than the low cost emulsions?
- Anuj Jain:** Sorry?
- Percy Panthaki:** What is the reason that premium products have not done as well as the low cost emulsion, is it down trading or I mean is there some other explanation?
- Anuj Jain:** There are two parts, one that in the third quarter when the price increase has happened it was substantially high on the premium products and therefore dealers stocking went up very, very high for the premium product and that took time to come down and also as we said downgrading that is also happening so both the things have affected the sale of premium in the quarter four.
- Percy Panthaki:** So, do you think that this fact that the primary sales for premium products has really been affected very, very badly this quarter is that one of the reasons why your margins are lower?
- Anuj Jain:** Possible, but the mix of the thing as we said in the trading we can say mix and then industrial, you know the inflation are higher also third reason that you know what contribution to the solvent product is relatively more, so in the fourth quarter generally my industrial sales percent is higher if you look the mix normally it does about 55:45 you know that in the fourth quarter generally the industrial percentage goes higher so that is the reason because industrial contribution is lower and that affected margins in the fourth quarter, so margins are lower in the industrial and that salience of the industrial business is higher that is also reflecting there.
- Percy Panthaki:** Thanks.
- Moderator:** Thank you. We take the next question from the line of Tejash Shah from Spark Capital. Please go ahead.


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- Tejash Shah:** Thanks for the opportunity and congrats Mr. Jain on the new role. Sir, my first question pertains to slightly longer terms if we see last three years or five years CAGR would not be a fair assumption that decorative growth could have been higher than our industrial piece growth?
- Anuj Jain:** Yes.
- Tejash Shah:** Sir, if we see our commentary on our mix which has been kind of static at 55 for decorative, 45 for industrial it has been static for last many, many years now, so mathematically it actually defeat the equation that we are seeing because we have the kind of a 55:45 for last many years, if I see my notes five years back, six years back, so I do not understand that why that number is not changing materially in favour of decorative yet?
- Anuj Jain:** I think you know five years back the numbers used to be 50% to 52% and when you say 55 plus, minus 1% here or there and if you see last one year or one-and-a-year then the growth is similar, so on the average basis I think in the last five years I would say that it has gone in favour of decorative to the extent of 3%.
- Tejash Shah:** Sure, in past we have always maintained the EBITDA level both the segment actually contribute almost equal margin because of the marketing overheads in the industrial side, but considering the pricing pressure that we are seeing in the recent past would it be fair assumption that the EBITDA share level at the base that we are sitting today on and the share of decorative base will be way higher at the EBITDA level than the industrial paint?
- Anuj Jain:** Yes, you are right.
- Tejash Shah:** So, just expanding on that I mean just referring to Percy's question also, if we do the math on the industrial side of the equation taking 55:45 as base and that means that this 45% of the business had actually a very decent 15% kind of growth in the quarter to generate 6% of overall growth is that math correct because it means that industrial actually did very well compared to decorative in this quarter?
- Anuj Jain:** The quarter four you are saying?
- Tejash Shah:** Yes, Sir.
- Anuj Jain:** This quarter four I said industrial is 4.2% and the decorative is flat so the balance growth has come from industrial.


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- Tejash Shah:** Sir, last question, employee cost had a decent jump in the quarter considering the performance I am assuming variable pay will not be that high so any one off there in the quarter?
- Anuj Jain:** Yes, this is one off, there are some provisions, but this is one off.
- Tejash Shah:** So, would you like to call out the number on the one off?
- Anuj Jain:** See, if you read the notes to the results that one provision for retiring benefits to the directors, which has been made and that is about 24.22 Crores which has come in this quarter so that is the reason that man power cost is higher.
- Tejash Shah:** So, it is for directors or is it for one director?
- Anuj Jain:** No, for retired ones.
- Tejash Shah:** That is all from my side and all the best, thanks.
- Moderator:** Thank you. We take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, few follow up questions, so first is you saw good growth in putty and my sense is most of the paint players are also seeing that, so how many more years of very good market share gain for the paint industry you see versus cement industry in putty because last three to four years, paint industry has taken massive market share, so could you comment on the industry level what is your thought process on putty growth for next two years or next one year?
- Anuj Jain:** I think see overall putty growth is in line with industry growth, but for the paint industry the growth is higher as you are rightly saying that you know maybe they are able to take the share from cement companies and still their share is quite high so it depends on what level of aggression you want to play so I think the next two to three years, I am not seeing the similar kind of growth what you have seen in the last two to three years, but definitely higher than the market growth you can still get from putty.
- Abneesh Roy:** And why is the market share growth happening for paint plus, is it because of cross incentivizing because you have much more product portfolio versus a cement company, is that the main reason or pricing there is more aggression because these are very wafer thin margins, so I do not think you can do much on the pricing bit, right?
- Anuj Jain:** Yes, actually the distribution is common, so basically people who are selling paints they are also selling putty, but you know putties are definitely a price sensitive product, so ultimately whatever aggression you have seen, we have not been that aggressive, but


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whatever aggression we have seen in paint is basically from the pricing pressure so when you are getting share you are getting on the price.

Abneesh Roy: Sure, second question is on the advertising you did mention that you would like to be more aggressive given so many new launches, but my question is on the paint industry again on advertising volumes so in FMCG what we are seeing, FMCG volumes are down sharply almost 20% down because of the gross margin pressure, so in FMCG the EBITDA margin pressure has been fairly controlled in most of the cases, so for the paint industry also are you seeing on an overall basis that paint volumes will be down?

Anuj Jain: No, we are seeing down, we are seeing at volume level there would be higher single digit growth is what we are seeing in the volumes.

Abneesh Roy: Okay and last quick bit, so in the distribution market leader is trying to do something new on the wholesale bit, so what would be your thought process that yes, direct reach, direct dealership is there in paint for every player, but now on the wholesale is that a good strategy could there be some issues because of that?

Anuj Jain: Wholesale will also create a pricing disturbance in the market and bring down the margins, but there are two parts of wholesale, one to reach to the market where direct distribution is not available, so our approach is that wherever we are not able to reach directly there you know how do we reach out to the wholesaler and distributor, but otherwise creating a wholesalers and distributors there is pricing stability issue in the market.

Abneesh Roy: So, is that a big problem because market leader will be present in almost all the key regions, but still if they are doing it, does that create a problem for you because you are a smaller player?

Anuj Jain: Two ways you take it, one is that okay in that process when there is pricing volatility in the market so there is dissatisfaction and therefore it is an opportunity you know whether you would like to encash upon because their reach is higher, so wholesale and distribution always create a pricing disturbance in the market that is rather a problem and in short-term obviously it is you know you get the more increase in terms of reaching the touch point or outlets, but for the other players sometimes there is an opportunity because the margins of the dealers are very, very low here and that is why when the companies are able to offer a good margins or better margins some amount of dealers are ready to shift, so that is one opportunity available, second in fact you know for us the answer is that because the weaker player there are so many market where we do not have the reach and maybe these are very smaller markets where we cannot reach directly and therefore as a part of our distribution plan we also have a plan of wholesaler distributor, but only for those market where our reach is poor.



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Abneesh Roy: Thanks, Sir. That is all from my side. Thank you.

Moderator: Thank you so much. I would now like to hand the conference over to the management for closing comments.

Anuj Jain: Thank you so much for all your questions and it was very nice to interact with you, we will definitely value whatever insight come from you and the points what you give to us and that is it from our side. Thank you so much and wish you all the very best for the good times you know in the past years, we have been seeing so many uncertainties, let us hope together we are able to come out from this world of uncertainties and get into a more certain world, so all the very best to each one of you. Thank you so much.

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