KANSAI PAINT

NEROLAC

8th August, 2022

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Dear Sirs,

This is further to the intimations done by the Company on 30th July, 2022, 2nd August, 2022 and 3rd August, 2022 with respect to the Conference Call hosted by the Management of our Company on Wednesday, 3rd August, 2022 at 11:00 hrs India Time to discuss Q1 FY 2022-23 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
Q1 FY2023 Earnings Conference Call"

August 03, 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 PLANNING, IT & MATERIALS – KANSAI NEROLAC PAINTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Kansai Nerolac Q1 FY2023 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 "*" and "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you and over to you Mr. Joshi!

Aniruddha Joshi: Thanks Nirav. On behalf of ICICI Securities, we welcome you all to Q1 FY2023 results conference call of Kansai Nerolac Paints Limited. From the management side, we have with us today Mr. Anuj Jain, Managing Director, Mr. Prashant Pai, Director Finance and Mr. Jason Gonsalves, Director Corporate Planning, IT & Materials. Now I hand over the call to the management for the initial comments on the quarterly performance and then we will open the floor for question and answers. Thanks and over to you Sir!

Anuj Jain: Thank you so much. Good morning to everyone and greetings for a good day. Thanks for joining this call for call of Kansai Nerolac for Q1 of financial year 2022-2023. As you would have seen during the Q1 we recorded topline growth of 47.1%. Industrial growth is slightly higher than decorative growth. Inflationary trend continued with 7% further inflation what have seen in Q1 and in Q1 we have taken approximately 2% price increase.

Just to give you some update last conference we spoke about what actions we are doing or taking in industrial and decorative so I am just taking the privilege to give you an update on those points as of now how we progressed, what actions we have taken, and where we are so in industrial we said that last year also we had an increase in market share and that trend continues and our challenge is basically to ensure better margin and therefore in addition to the efforts for price increase like last year we have taken approximately 18% price increase. Increase was not sufficient to mitigate the inflation because inflation was very high so we have been extending technologically superior product. Some products we mentioned last time like monocoat, medium to high solid and in addition now we have extended our range of tin free and energy efficient products. These are very high technology products which really helps customers in terms of their capex going down and energy efficiency or the consumption of the energy goes down so it is environment friendly and also it helps in terms of reducing the cost and increasing the productivity of the customers. Our salience have gone up in the Q1 because we are trying that how much we can shift to these products where there is an advantage and may be slightly the margin is also better. In performance coatings where again the margins are very, very low and we said that last time that we are increasing our focus towards high technology products where the margins are better so what we have done in the Q1 is that there were a lot of low end business where the margins were not there or hardly any margin so we exited approximately 10% of the business and we shifted our focus to the premium item technology items in high performance coating and where the salient's has gone up in the Q1. In coil coatings again there has been a lot of margin pressures and we were virtually selling at a very, very low margin or hardly any margin so there also we said that we will move towards higher margin products. In fact we have left almost 30% of our business which was not profitable and in appliance and the high technologies we started getting the approvals and salience in the Q1 has gone up from 3% to almost 10% in coil coatings. In powder coating also where we have a good market share we are market leader but in the premium our market share is less so we said that we will increase our salience in the premium so in the Q1 our salience has gone up by 2%. It is not line with what we have targeted but still the trend is upward so this in case of industrial.

In decorative, last time we discussed that what we are doing. One action was related to new brand expansion which was paint plus where we said that we will be launching differentiated products. In Q1 mica marble stretch and sheen which was launched in Q4 of last year, we extended the market and now it is available in All India. We introduced the Impression Kashmir in the Q1 and polyethylene enamel also was introduced. The second point we said we will add more and more products every quarter in premium and super premium category. Our market share is better relatively in economy and popular category but we are weak in premium so we said within our network because we have a strength of network and we have a relationship with our network so from our network we will attempt to increase our sale so with the introduction of these new products in the last two quarters our distribution growth for the super premium category is more than 50% in the Q1 and salience also has gone up. In terms of communication we were saying that we will increase communication through advertising and digital marketing focus and we will focus on paint plus which is the differentiation and Japanese technology and jingle which is very popular and in terms of our share of voice we will keep it around 15% approximately and we will participate in may be cricket again so in the Q1 we introduced campaign on pain plus with Japanese technology and jingle so that has been on air in the Q1 and our share of voice in the Q1 was a little higher than 15%. Another point was augmenting the market development structure to generate leads from size and influences so in Q1 we scaled up the field team. Most of the time has gone into recruitment but we have scaled up. Actually we have doubled our team and also the support system and we also started digital marketing program for leads in generation towards the end of Q1. The other point was that we want to do some good influence program with acceptance of Pragati app which we introduced for painters. That offers instant benefit which is the fastest in the industry so in the Q1 we have seen a high double digit growth increase in the participation of painters but we still have a gap in terms of getting share of wallet from the painters, but participation has increased. We also wanted to start secondary sale from the dealer counters. We started but we will have to bring it a meaningful conclusion. In distribution we had increased our team to open the direct distribution, dedicated team for opening the distribution and some new distribution models, so in Q1 our distribution growth is again in double digit high double digit and we have put 50 preferred counters so these are like a kind of experience stores. We were weak in institutional business project business and last two to three years this business was growing at a faster rate so we said that we will focus on institutional business by increasing the reach so we extended our reach in the metros and tier one towns and extended our team there and in the Q1 we doubled our business in the project institutional business.

The next part was the new business which includes construction chemical and premium wood finishes mainly in our case. Adhesives we do through Nerofix which is our subsidiary. It is joint venture subsidiary and we said that we want to achieve a salience of greater than 5%. Industry salience is higher but since we started late so we said the first milestone is that we should achieve 5%. In the Q1 we have touched the salience of 5% and obviously our first attempt was not to create any differentiation here. let us match the range of the market and see that how much we can sell through our existing counters so as of now approximately 30% of our existing counters have started selling our construction chemical so obviously we have to go forward but as of now this is the status. In these new businesses it may be very difficult to compare with some of the other companies or the industry because lot of new business is getting added. For example in construction chemicals there is a business called membrane business which is also quite a good business but we have not got into this business because when we started this we evaluated the entire range and we found that the margins are very low and we did not find it very futuristic product so we did not get into it. There are add mixtures which is also part of construction chemicals. In our industry many companies have started add mixtures. As of now we have not got into it because our first task was that the range which is related to the retail our first target is that how do we get our existing counters to sell our construction chemicals that was the focus so we can say that today whatever range is available in the market because every quarter the products are being added. Our matching range is around 70% and we do not have any plan to go to 100%. We will remain in 70% to 90%. When it comes to adhesives this is a part of our JV which is Nerofix and in the Q1 there the growth was more than 109% but on standalone result it will not be reflecting and so that is the status on the new businesses.

We have a complete range of economic products for Soldier and Nerolac and there were certain gaps in the product range which we have completed. There are certain products in the economy category in enamels where the margins are very low and therefore as of now we have decided not to get into it but when we have completed our range of water based we have found that there is some cannibalization happening because when we introduced the economy range of products partly they need the sale of the higher range of product and therefore there is some drop in ASP. We also said that we will venture into services with five days painting proposition so in the Q1 we started under the name of Next Generation Painting Services in six cities we have launched with the proposition of five days. As of now it is just a start and going forward when we will expand to other cities. So this is the update on what I said during the last conference. What else we did in the Q1 I will try to cover.We focused a lot on the employee engagement the culture of collaboration and lot of activities has been done. We introduced in our company Life at Nerolac when people take pleasure they also enjoy the work and a lot of collaboration activities we are doing. Take care of the well being because the last two to three years the situation has been tough, COVID situation and people have gone through a lot of mental agony so we have focused on the well being and introduced some well being apps and initiatives we have done. This year we have given some extra salary increase to all set of employees to combat inflation, we also worked on developing the digital training plan for all managers. Earlier we used to do it on a selective basis but to upscale and rescale we have decided to go for all managers. Also we worked on the talent identification because as the industry situation is changing some kind of new talent is required so we relooked at the entire exercise of talent definition and identification. We went through the assessment of the talent and we made our action plan for the next few years. We also focused on innovation in the Q1 and we had our innovation day and lot of ideas have been generated in the area of product, business model, services and we have selected good good ideas which we are going to take ahead for the implementation in the coming time. We also spent lot of time in terms of meetings Personally I spent time meeting customers in industrial, automotive, performance coating and the decorative market just to understand that how the changes are happening. Also we spent time with the vendors on a one-to-one meeting and I was privileged to meet many of you on one-to-one basis in the Q1. I think we had more than 20 meetings with the investors and analysts also.

In terms of this ESG our company has done very well in the last two years but when it comes to the carbon emission we were looking at scope one and scope two but we have initiated the exercise of doing the inventorization of the scope three and putting the sign-based target for carbon emission and also framing TCFD framework for us because in our parent company Japan it is mandatory. In India it is not mandatory but from the self regulation point of view this framework we also worked up on. In line with our plan we have finalized our three-year strategy for decorative and industrial that is also completed. The execution plan is made. In line of that we relooked at our capacity plan and their requirement and accordingly the actions are initiated so these are few other things which we did in Q1. There are few things which are not working in our favor as of now so one is putty where there have been no price increase in the last one to one and a half year. There were high discounts in the market. The margins are very low so we will still continue our restricted approach in putty. Local versus upcountry means the tier one metro and tier one versus tier two, tier two, tier three and tier four so our contribution of sale is more from the lower tier towns and if we compare with the industry for metro and tier one our salience is low but the market growth is higher in metro and tier one so just for example even if we take the matching growth we have a disadvantage of lower growth because our salience is lower. Similarly in our business mix the project which is growing at a rapid rate so as I said that Q1 at least we are able to match the market growth a little better but again our salience is just single digit or lower single digit while for the market it is double digit. So even if we for example if we are 5% and grow by 100% I will get 5%. If the market is 12% and grow by 100% they will get 12% so that salience difference will be there and also in the new businesses salience if our growth is okay but salience difference would be there and that will continue for some time so this is something which we feel it is not working in our favor and internally whatever actions are required we have taken. I realize that what we need to improve at our end is the speed to scale up because some of the things which we have done as of now the indicators are in a right direction, so we need to improve in terms of speed to scale up and also sustaining momentum of some of the launches and innovations what we are doing. This is internally what we feel that we need to scale it up. In terms of corporate financials you all have seen the result. The profit after tax was up by 37% so this is the initial commentary from my side. Thanks a lot for your patience in hearing and now I invite the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Dhruv from Edelweiss. Please go ahead.

Dhruv: Just a couple of questions. One is on the revenue mix? Can you take us through the mix which we have seen historically between industrial and decorative and within industrial what has been the mix of auto and non auto and what is the current mix and where do you see three years ahead given the growth uptake you see in the auto sector basically? That is my first question?

Anuj Jain: The mix is generally like we have been saying around 55:45, 55 for decorative and 45 for industrial and within that it is about 70:30 auto and non auto and going forward three years obviously our plan is but today the opportunity is there in both the markets decorative and industrial so though the intention is that it goes in favor of decorative the salience should continue to go up but it depends that how market behaves in the next three years time because since we are strong in industrial part also if there is opportunity available we would not like to lose upon that.

Dhruv: Thanks, and second is can you take us through the market share in both the segments?

Anuj Jain: The market share is very difficult because generally what happens is that it depends that how many companies we consider but in decorative if we take only the listed companies the market share is around 9% to 10% and in automotive we have a market share in excessive of 50%. For the non auto it is very difficult because there are so many companies and there are so many segments so segment by segment you have to look at so therefore there it is very difficult to get into the market share.

Dhruv: That I understand. Thanks. This is all.

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

Shirish Pardeshi: Good morning. Thanks for the opportunity. Just two questions did you spell out what is the volume growth in the decorative segment in the beginning? I missed that number.

Anuj Jain: No I did not spell out so overall volume growth was higher double digit.

Shirish Pardeshi: When you say 18% you have taken price increases so it should be in the range of about 20% odd to 22%?

Anuj Jain: More than 20% you can say.

Shirish Pardeshi: That is really helpful. Second you mentioned that you have taken 2% price increase and you mentioned that inflation is in the highs of 8% in the quarterback? Is that correct?

Anuj Jain: Yes 7% inflation in Q1 and we have taken 2% price increase.

Shirish Pardeshi: So my question is that since all data points there that the crude is going to be slowing down and there are a lot of benefits which are going to come so just wanted to understand how are you running the supply chain? Right now we are using the high price inventory and that is why you have taken 2% or do you think you will have to take some more price increase for the products in the decorative?

Anuj Jain: The price increase is something very recent phenomena towards the end of quarter and generally there is a lag, change in the crude should reflect in the derivatives and thereafter obviously we carry some inventory so there is a lag period. Having said that one we are looking at the inflation, we are looking at in totality. Last year there was a high inflation. Q1 also there is inflation and especially in industrial whatever price increase we have taken last year it was less in comparison to the inflation so obviously more price increase would be required. In decorative again there may be some possibility of further price increase a small price increase and then probably the next two to three months when the picture would be clear then we will be able to see whether further is required or not required but there is a possibility of further of further price increase.

Shirish Pardeshi: Okay wonderful. On the industrial and auto have you experienced any price increases we have got?

Anuj Jain: So when I said, see last year we have taken in industrial about 18% and when I say 2% price increase Q1 that is total. It includes industrial and decorative and price increase is relatively higher in industrial.

Shirish Pardeshi: That is helpful. My last question that you did elude saying lot of initiatives we have taken but just for the sake of monitoring what are the top two or three things because I am sure you have done the strategy for the next three years what are the top two to three things you would like to achieve in say the next two to three years?

Anuj Jain: So if you are talking about the initiatives, you are talking about the initiatives or what?

Shirish Pardeshi: Initiatives?

Anuj Jain: So I think I spelled out. In business there are three things paint, putty and new businesses so obviously our first attempt is to see that in paint that we are matching or better than the market growth and for that the initiatives in terms of product, communication and influencer so that is the first priority. Whenever the right time how we can increase the discount and match up the growth and new businesses as I said that we will be launching the product but with are not looking at 100% so the first priority is to get to the market and over the market in paint based on the initiatives on product, communication and influencer.

Shirish Pardeshi: So does this have the implication that you have any target that say for certain percentage of the new products should contribute to your revenue?

Anuj Jain: Yes. For the new products, for the participation, increase in painters, the extraction from the painter those targets we have and we are monitoring on a month-on-month basis.

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

Moderator: Thank you. The next question is from the line of Mihir from Nomura. Please go ahead.

Mihir: Good morning. Thank you for taking my question and congrats on a good set of numbers? Mr. Jain I just wanted to check with you on the quarter what was there any restocking at the dealers end as 4Q we have seen relatively lower sales so the dealers would have ideally have to stock up in the Q1 so any kind of a one off or a restocking that is there in the numbers in the Q1 sales?

Anuj Jain: So what happens that when they stock less in the last quarter generally the pickup happenes in the first month of the quarter which is April but during the quarter it gets stabilized.

Mihir: So we are like normalized sales? The run rate is normalized to these levels is what we can assume?

Anuj Jain: Yes.

Mihir: Got it. Sir secondly I wanted to check you mentioned the mix had improved so the volume growth should be much higher than 20% to 30% in my view right and what is the steady state mix impact that we should consider?

Anuj Jain: I said earlier also that what we are looking at this super premium category and what we are watching is that there because the growth in the market is better. Today also after the inflation we are seeing that in the premium category as of now market is still doing good and may be the impact is there on the consumers in the middle category or lower category so super premium category where our salience in relation to the market is lower that is what we are targeting with the introduction of all these products because whatever products I spoke about they are into the premium or super premium category.

Mihir: No I was actually referring to the difference between the volume and the value mix? Historically the difference has been, earlier it used to be like 5%. In the recent years it was like 7%, 8%, and 9% so the difference between the volume number and the value number is a mix impact that I was referring to. Given that this quarter had a better mix, the mix impact would be lower so if you have grown your value by 47 and you have a pricing 18%, 19% or 20% then your volume growth has to be far higher in mind that is what I was referring to?

Anuj Jain: I do not know. What happens is that as I said that internally what we do we look at paint separately, new business separately, so if you see the last year the price increase in decorative was about say 20% to 21% and partly impact has come in say last year itself so typically if you see 16% to 17% change should be there and so the value and volume the gap should be around 16% to 18% if you keep from the only price point of view and if you are getting a higher growth than that then it is a change because of mix.

Mihir: I will take this offline. Sir and on margins I wanted to see margins also are due to a better mix. We have seen a much better than expected margin this quarter so can one expect margins to bottom out as you eluded to some certain structural changes in the portfolio so this kind of a mix that we are seeing that with are seeing in this quarter may or may not be, can it be the similar mix going forward or you think that there is a possibility of margins to kind of go down in the next quarter or so just because we have seen a better mix this time around?

Anuj Jain: So typically for the paint industry in the Q2 which is July to September the mix is different because in this period more of enamel, primer, distemper, and lower end product sales happen so generally we find that the mix for decorative especially in the Q2 is inferior to the Q1 and then Q3 it becomes better, but some of the changes what I spoke about in the industrial that would continue to work.

Mihir: Got it. Thank you very much for this and all the very best Sir.

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

Avi Mehta: Sir I just had three questions. First on the decorative side, are you concerned that this quarter probably saw one time benefit from pent up demand due to the Omicron and with inflation with the fact what we are seeing globally is there a possibility that growth should start to slow down? Is that a concern that you would be worried about?

Anuj Jain: No I am not very sure about the pent-up demand because you can say that in Q1 the growth is higher because last year May base was very low because last year May there was a COVID impact, the base was very low and now because it is normal market so it is normalized so to that extent obviously the growth of the Q1 is higher because of the low base. Now from this quarter onward it is a normal market growth so generally we have seen that paint industry has been growing in the range of double digit or may be bigger single digit growth volume so I think that trend we feel that should continue. The only additional factor this time could be because the last two years the Diwali was there in the month of November. This time Diwali is in the month of October so generally paint industry gets benefit if there is a longer Diwali period. This time it is a little shorter so we have to see the impact of that.

Avi Mehta: Okay Sir and the second part was I just wanted to kind of revisit the answer that you said on the pricing? If I look at current input cost levels would you say that the incremental price hike not just in decorative but also in industrial will be relatively low? The amount required will be much lower than what has already been taken as in the bulk of the price hikes are now behind us?

Anuj Jain: In industrial we feel that we need more price increase so because last year inflation was there and I think we got may be just 40% to 50% of the price increase in the inflation so some more price definitely is required for us to better our margins.

Avi Mehta: Okay and Sir lastly you did elude towards a focus on more premium and more technology-based products not just in decorative but also in our industrial portfolio? Does that have any impact on the royalty rate that we pay?

Anuj Jain: No impact.

Avi Mehta: So the royalty is essentially paid only on the products that are directly taken from only in the industrial side right Sir? I just wanted to clarify that part.

Anuj Jain: Only on automotive on selective products.

Avi Mehta: Perfect Sir. That is all from my side. Thank you very much.

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

Aditya Ahluwalia: Thank you for the opportunity. Sir my first question is on ANP spends and from a longer-term perspective do you think that we have been a little cautious and we have not spent enough and that is one of the reasons why our performance in the past has been a little bit below peers and secondly what is the outlook on the ANP spends going ahead?

Anuj Jain: So we do agree that last few years that we had reduced the expenditure and we got impacted because of that and now we have taken a conscious call that we will be increasing our marketing expenditure.

Aditya Ahluwalia: So as a percentage of sales is there anything that we are saying we are calling out?

Anuj Jain: So I do not want to share the figure but as I said that if you see the last two to three years when we reduced our marketing expenditure our share of voice in terms of visibility has gone down substantially significantly. Now we are seeing may be around 14% to 15% share of voice, we will be maintaining even if the market intensity changes which means that if market intensity goes up because and the new competition is there so we will maintain so if the market intensity goes up this figure also will go up.

Aditya Ahluwalia: Right but the margins have come off despite this lowering, I think because of the industrial and auto segment so you think that even with the higher ANP the recovery as you mentioned in the previous question there should be continuous improvement in margins going forward?

Anuj Jain: Because as we discussed about this premium, super premium, the paint plus products and that is why the focus is more there because when we are going to increase our ANP expenditure and there are certain other initiatives required so we have to focus on the better mix so that we are able to balance it out.

Aditya Ahluwalia: Thank you and just one last one. You said 55:45 the mix between decorative and auto and industrial?

Anuj Jain: Yes.

Aditya Ahluwalia: It should be more like 65:35 now right given that auto has been declining?

Anuj Jain: No 55:45 closer to that.

Aditya Ahluwalia: 55 and 45 okay thank you very much.

Moderator: Thank you. The next question is from the line of Keyur from ICICI Prudential Life Insurance. Please go ahead.

Keyur: Thanks for the opportunity. Sir I just want to understand that in the context of say as you mentioned that we executed some of the low margin businesses on the industrial side. At the same time we are witnessing some slow down in the input price also so these two inputs logically says that there should be a sequential margin in improvement on the industrial side and since we executed some of the business so how should we see it is a balance between the growth in the industrial side and the margins going ahead? Any run rate, range or any qualitative color you would like to share on that aspect?

Anuj Jain: So two parts. One that growth obviously in industrial and automotive side there is a momentum in the growth. The production growth is looking up. Two wheelers where the last year production growth of two-wheeler were negative. Now it is into positive area but it is still not back to the pre COVID level but with the good monsoon there may be a possibility that after September there may be a further pickup of two-wheeler but we do see a good momentum to continue for the automotive demand. For margins as we discussed earlier also because margins have gone so low and obviously therefore there is a immediate requirement to increase the margins for which one is the price, other initiatives which I mentioned though the initiatives are taken to get it to a reasonable level. Margins are to be improved but as a strategy what is happening in the market some of the investments are also required so as we keep working on our margin improvement and then see that when it becomes more viable to do more initiatives so it will be a mix and match of both the things.

Keyur: Okay but when you exited some of the businesses that will not have impact on the earnings growth since they were not profitable?

Anuj Jain: So we are going little conscious on that in terms if you are saying top line growth obviously when we exit some business there will be some impact but the focus has shifted from that low profitable product to the better profitable product so over a period of time we intend to compensate that so that is what we are doing.

Keyur: Okay Sir congratulations on a good result and thanks a lot and all the best for the future. Thank you.

Moderator: Thank you. The next question is from the line of Arun Subramaniam from Ampersand Capital. Please go ahead.

Arun Subramanium: Congratulations for a good recovery in Q1. One thing just wanted to get clarification from you is that you said you are more present in smaller towns and in tier one and that has kind of affected your market share trend in recent times so can you just give us a more granular sense of is your split and secondly what exactly you are looking forward in terms of the change in the next couple of years?

Anuj Jain: Just to give you some rough example like if you see local towns versus up country town when I say local town wherever we have built up our office there mostly the A class towns our business would be a little less than 40% from the local towns and more than 60% from up country towns. While in terms of market split it would be 50:50 or may be tilted towards the local towns so to that an extent we have a disadvantage and all these big towns some of these things what I mentioned in terms of surveys and other initiatives project because project business institutional business is growing more in this local towns or the bigger towns so some of these initiatives over a period of two years should help us.

Arun Subramanium: Understood and considering that you were launching your products in the more premium side so that typically should be used up in bigger towns so is your product strategy aligned to what you are looking at?

Anuj Jain: Yes it is aligned because there are two things. One that premium and super premium category but some of the differentiated products the features what we are launching we are trying to see that pricing is relatively affordable. I am just saying that if the same feature is available so that is our democratization of the product that is the same feature that is available in the market at Rs.100 whether you can make it available at Rs.90 and that is the technology we are working which are doing without impacting the margin but how do you format the product where the feature can be offered so some of these products goes very well in the urban markets or say local market but some of these products are also quite aligned with the requirement of up country markets.

Arun Subramanium: Understood Sir I can see that your strategy as far as industrial is pretty clear and you are doing pretty okay out there except for this pricing volatility whereas in the last couple of years because of whatever reason you have been a little bit reactive in the decorative space and which probably has resulted in market share loss so can we say that now that phase is behind us and you will be doing much better in terms of your decorative?

Anuj Jain: So I want to comment like this that yes we lost and we had our action plan and strategy some of things what I mentioned also but let me except it that market has become competitive and in the paint earlier paint was simple. It was only paint. Now there are so many elements. There is the Putty which was not there in the past which has lot of new businesses so comparison going forward will become very difficult. Internally what we are doing is that our core business is paint. Now in the water proofing, in the construction and chemical whatever products which are becoming an integral part of the paint those products we are launching so internally we are quite focused on the paint and see that we make progress and some of the point what I mentioned given inputs about the Q1 there is a progress upward progress we are making but suppose tomorrow there are other new products are coming up which may not be planning. I am saying other new products in the new businesses which we may not be planning so then comparison with the industry peers will become very difficult.

Arun Subramanium: Do you have the advantage or disadvantage of having your Japanese parent in this particular aspect which you are talking about?

Anuj Jain: We have a big advantage because when we talk about the technology and the process I think that they add so much of value to us and they are very supportive so we are definitely doing all these things in consultation with them and we are very happy that with their inputs.

Arun Subramaniam: Even products?

Anuj Jain: Yes because our parent company, they also have a lot of subsidiaries in many markets so we have an advantage in terms of getting access to that what kind of product even in this adjacent categories that what kind of trends so those inputs are there and through the parent of Japan or through their subsidiary we are able to get the access to the know how technology, product, and marketing trends.

Arun Subramanium: Thanks a lot Sir and all the best.

Moderator: Thank you. The next question is from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur: Thanks Sir. I had a few questions. First was can you just elaborate on your distribution reach in the decorative paint segment what would be your distribution reach and how much distribution touch point you would have added say in the last quarter and last year may be?

Anuj Jain: Last year our reach was around 27,000 to 28,000 total dealers when we ended the year and generally the growth in the last two to three years, last year probably it was around 7% to 8%. In the COVID year the growth was very less and in Q1 the distribution has increased in the double digit little higher double digit so there is an improvement there.

Ajay Thakur: And you continue with the same pace of distribution addition like around 7% to 8% or around 10% odd or you think you create much more headroom to grow given the fact that leader is present more like in one lakh plus kind of?

Anuj Jain: We have good opportunity available good headroom. As of now the numbers have gone up and some of the activities but typically what happens is that you have to create demand and confidence in the trade and as it goes up then the numbers of distribution so that is like an outcome so all the activities the product influencer activities what I spoke about as we get success in that I think our momentum in terms of increasing our reach we will go up. It should go up.

Ajay Thakur: Secondly wanted to check on the competition front? Can you just give us some brief color on how the competition actually is shaping the fact that we have new players coming in and also where are these competitions more kind of concentrated? Is it some kind of a geography vision where we are seeing more competition from these players or is it like they are broad based across India that we are seeing that new players where the competition actually has erupted?

Anuj Jain: The companies who have already entered in the last two to three years they are now having a presence across the country. Some of the companies have entered in the last few years and specifically if you talk about Grasim going to enter in the next one to two years I think their plan whatever is available in the public domain they are also planning to be All India players but they may start with some specific market and over a period of time I think they will become All India players.

Ajay Thakur: Okay and lastly on the industry growth in the paint segment for this quarter how it would be given that we have very high number actually coming from most of the players so any sense or color on that front could help?

Anuj Jain: Sorry I did not understand the question. Industry growth you are saying.

Ajay Thakur: I am talking about industry growth in terms of the paint segment for both the industrial paints and the decorative paint segment?

Anuj Jain: For Q1 you are saying.

Ajay Thakur: Yes for Q1.

Anuj Jain: Because many of the companies are yet to come out with the results so as of now we would not like to comment on that. Only once the results are out then probably we will have a better understanding.

Ajay Thakur: Quite helpful. Thanks Sir.

Moderator: Thank you. The next question is from the line of Aniket Sethi from ICICI Securities Limited. Please go ahead.

Aniket Sethi: Thanks for the opportunity. My first question is on the project business so this was not a focus for some of the players earlier say four to five years back but now even the market leader and you have been seeing strong traction in it so can you discuss the changes in terms of attractiveness of that business for you to focus more on it?

Anuj Jain: So in the past we were not very focused because how many directions you want to go and how do you spread your wings but I think today the growth in certain market and the project business because it is penetrating in more and more cities. The number of cities are getting expanded so virtually I can say there is no choice. It is important to remain in this particular business. The discount in this business is higher and therefore the margins are lower. The only thing is that this business is more of emulsions and putty probably enamel distemper is not much there so to that an extent some mix advantage but overall the margins are lower in the project business.

Aniket Sethi: Okay got it. Second on a broad basis what would be the margin difference between your decor and industrial segment and the bridging between the two will be more price lead which you were eluding sometime before or it will be done through more of new launches in the industrial segment.

Anuj Jain: Prashant you want to answer this question.

Prashant Pai: So the difference at EBITDA level is in the range, it is 8% to 10% more than that the difference between decorative and industrial and the improvement in margins will happen from introduction of new products and technological superior products.

Anuj Jain: And also the price.

Prashant Pai: And price increase.

Anuj Jain: The difference is quite large now in decorative and industrial and so these are few of the actions which will probably see that whatever amount can be bridge. 100% it cannot be bridged.

Aniket Sethi: Understood and lastly if you can highlight the capacity utilization for the two segments and what will be your capex requirements? That is it thank you.

Anuj Jain: 65% was the capacity utilization in the Q1 and we announced some capacity expansion just to support the growth objectives what we have.

Aniket Sethi: How should we model the capex for the next two years?

Prashant Pai: So right now you must have seen we have actually approved two projects both in decorative. For industrial and automotive we have capacity for the next two to three years so as and when required we will definitely expand because we have got infrastructure for Brownfield expansion both for industrial production so that is not a concern at all. As far as decorative is concerned the commissioning period is not as large as industrial so we will be able to scale up at any point of time so there is no problem on capacity.

Anuj Jain: So these two new projects what we have announced it will happen over a period of next 25 to 30 months and that is an investment of how much Prashant.

Prashant Pai: Rs.290 Crores.

Anuj Jain: Rs.290 Crores of what we announced so Rs.290 Crores plus your regular capex for the year.

Aniket Sethi: Fine got it Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: Congrats on a good set of numbers. Just trying to understand your margins so this quarter has been a significant jump from 7% in Q4 to about 13% in Q1 and large part of it is because of the operating leverage of the higher Q-o-Q sales? There is also some amount of improvement in gross margin but our gross margins are still significantly below historic average so just looking into the future for a few quarters how do we sort of build in the margins assuming that the input costs stay where they are? You have already got some benefit from premiumization? You have already taken price increases? May be a little more will come in the auto segment so shall with say that this 13% margin will now stabilize in the range of about 14% to 15% unless the input costs fall further? Is that a fair assessment?

Anuj Jain: Overall year basis and quarter basis there is a difference because every quarter there is a change in the business mix and the product mix as I just mentioned little while back that in the coming quarters for the paint industry the mix is supposed to be inferior compared to distemper so that also will effect and also as I said that some of the activities what with are working upon that will help in the margin improvement but we do have some of the points which are pending in our strategy where as I said in some of the areas where we are still restricting because as of now when we want to get a profitable growth you have to balance it out so as we improve margins and we find that our capacity to spend on those areas goes up so that would happen so it will be a mix and match of that so difficult to give you an answer but yes last year also we said that our margins are already in the lower side so I think we have improved. We will continue to improve but improvement and investment will go hand in hand to see that we are able to balance between the topline and the bottom line.

Percy Panthaki: So as you mentioned there is a seasonality because of product mix being different so if I basically look at this point of product mix difference between quarter-to-quarter, Q1 margins versus the full year margins they would be higher or lower in a normal year?

Anuj Jain: Actually I do not want to talk about that but as I said that I think we have improved. We will improve but then there are certain investment also would be required so I leave it to your guess but it may be closer to this.

Percy Panthaki: Sir I am not asking for guidance for this year or next year? I am just saying in the past historically speaking the product mix impact has been sort of highest in which quarter in terms of which quarter has the best product mix and which quarter has the worst mix? That is all I want to know?

Anuj Jain: So the product mix is better in Q1 and Q3.

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

Moderator: Thank you. The next question is from the line of Archit Joshi from B&K Securities India Private Limited. Please go ahead.

Archit Joshi: Thank you Sir and congratulations on a good set of numbers. Sir my question is related to the industrial paint segment? You had mentioned in the presentation last quarter that is a key player in the electric vehicle segment and you have also mentioned that we have strategized a three year plan in terms of having our strategy built around the paint division that with have on the industrial side so can you elaborate a bit more on what the strategy is and how we will be able to leverage our parent products in the EV side so any broad color on that would be helpful?

Anuj Jain: By and large what we said is like now since there is a trend of electrical vehicles. As of now the percentage is very low but over a period of time this percentage will increase so the product and the system what is required is available with us and most of the customers because in the electrical vehicles now there are existing players who are in the traditional two-wheeler business where they have their paint shop but the new players are getting painting outside so those are like ancillaries and they are also our customers so our customer base is good. The product is readily available so as and when this scale up happens that we are there. We are available with our service and with our product like that so this is related to EV if your question is only specific to electrical vehicles.

Archit Joshi: Sir not just EV but if you can elaborate a bit more and on what we actually are strategizing with respect to growing on the industry side if you can?

Anuj Jain: So industrial because this automotive market share is high and there in fact we have a very strong market share in Japanese players and today there is a good growth happening in the Indian players also the EV manufactures so there we are going aggressive and we are working on the technology that like there was a question earlier the help from our parent so there are a lot of technology advantage which we have in this industry which is like for example we introduced three coat one bake. Now for the baking also there is a particular temperature. Now we are working on reducing the temperature so that the energy consumption keeps going down at the customer end that helps in terms of cost, that helps in terms of environment, and that also helps in terms of increasing the productivity so all those areas we are working to keep our mode or competitive advantage in the automotive. The second part is auto refinish where are our market share is very low less than 5%. The size of the market is good and there the margins are better so we are working to see that how do we increase our salience of auto refinish because that will also help us in keeping the margins in the auto and in the non industrial areas as I said that our focus is not completely shifting but largely shifting from the low end to high end and therefore we have created a structure and getting into the approvals and fortunately we are getting approvals so these are the actions which will help to make a good place in the areas which are growing and which are profitably growing.

Archit Joshi: Thanks. All the best.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from iThought PMS. Please go ahead.

Sanjay Kumar: Thanks for the opportunity and congratulations on a good set of numbers. The first question on the ANP expense, a few years ago we increased our ANP expense say for FY18-19 saying that first that first you increase the mind share and then you convert the mind share to market share which we were not able to do in FY2021-FY2022. Now that you want to know you will increase your ANP expense again what will be the strategy going forward in dealer network because the largest player I think they have doubled or at least they have increased their retail touch points. They are not exactly the dealers but they have increased by 50% and next two years say we increase our ANP spends and by then have entered the market in decorative so what would be our strategy going forward in distribution and specifically the dealer network?

Anuj Jain: So in those years when we increased our marketing expenditure our focus was more in terms of enhancing the mind share and we got advantage. I think three years we gained market share in that period and when you are saying that converting the mind share to the market share that opportunity happens from the dealers and the influences so I think most of the activities what we are talking about the marketing activities and influencer activity in that particular direction so on one side you have to maintain your salience that is why we are not talking very aggressive in terms of share of voice, maintain the share of voice so that you are able to maintain your mind share which is strong number to as of now and concentrate on the activities that basically convert the mind share to the market share so that is first part. When you talk about the new competition I think because generally what happens in this market ultimately for good business you have to create a good distribution and you have to create a good demand for which it is important is that you should have a brand which we have and then you have to create the distribution and support the distribution with the painter and that is like hard activities which people will have to do so I think we have an advantage there and if any new company comes in they have to do this activity to build the distribution and to build the contacts with the influencer. It takes it own time so by that particular time how much work we are doing and how do we expand. I think that we will be more focused on that, that how do we speed up all these things and get the advantage.

Sanjay Kumar: My concern was on the growth rate say the Asian Paints is growing at 20% to 25% CAGR in its retail touch point but we are guiding for 7% to 8% or early double digits so I see this backwards so is that something to be worried about or you will change that going forward?

Anuj Jain: That is what I am saying that probably in the earlier years it was very simple because paint versus paint. Now it is not paint. There are so many things which are getting added. So as I said earlier that the focus remains on the paint and the integral part of the paint so that is what we will be seeing and over a period of time then if there are some other products where the market is created because typically in any industry it happens that if there are new categories coming in so the leader takes the initiative and they create the market and if their market is lucrative may be one can decide that you want to participate but at this stage I think it is focus for us to see that in the paint areas which has been our core business and whatever weakness we have had in the past we come out of it. That is our focus area.

Sanjay Kumar: Okay Sir thank you and second on capital allocation so you said that our YouTube is at 65% and we are putting up capex in decorative which will take 24 to 30 months that is also the time Grasim will take to come to the market so there will be a lot of supply coming in the decorative space so would it not make sense for us to get aggressive in industrial space and put up new capex there rather than decorative there where there is a lot of competition coming? Just wanted to hear your thoughts on that?

Anuj Jain: So industrial in fact we have already created a capacity and there a lot of scope for Brownfield expansion is there and as and when whatever demand we are able to foresee I think we are covered in terms of the capacity. We are fully covered up because that is our one core area and we are fully covered up. In fact in the last two years we have created a dedicated capacity for non automotive industrial things also so we are fully covered up there and this capacity what we are adding is mainly in the water base because water base generally the market growth also is in double digit if you see the last three years to four years and that will continue so even if you see the normal growth rates so obviously we do this calculation when you want to expand your capacity that what is the normal growth, what can go plus or minus, and then based on that calculation we feel that the capacity is required and as I said that we are committed to this decorative business also based on whatever initiatives we are taking and has the time demands probably whatever changes are required to be done in that and therefore to support that this capacity expansion is required.

Sanjay Kumar: And given the competition in decorative are we seeing higher aggression from say players who are in industrial or Berger getting aggressive in this new space?

Anuj Jain: It is difficult to comment upon, may be possible but I think industrial is a core business and some of the things that I spoke about I think we are also planning to go you can say aggressive because there are opportunities in the nonautomotive area where I said that this segment by segment. The only thing is that we want to remain focus on the profitable segment rather than the lower profitable segment because in the decorative market when the competition intensity goes up there may be a possibly that the margin structure may change and that time if we are able to build our business in the industrial in the better profitable segment I think we will be able to balance it out.

Sanjay Kumar: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak Securities Limited. Please go ahead.

Jaykumar Doshi: Thanks for the opportunity. My first question is Kansai Japan in their presentation in the month of May have given a guidance of 18% growth for their India business revenue growth and if I were to look at this quarter's performance in the turn assume certain growth for the rest of the year it seems that you should be able to grow 20% plus in revenue terms so can you please help us understand what goes into the guidance and forecast of the parent for the India business?

Anuj Jain: Prashant you want to answer this question.

Prashant Pai: Clearly we do not give any guidance. We do not make any forward-looking statements so generally you are a better person to judge how the industry is moving right and you know the growth is happening. We believe going forward the growth is good but we will not make any statement of any percentage increase or something so we will move in line or slightly better than the paint industry that is what I can say.

Jaykumar Doshi: No my question of Kansai Japan India presentation gives a guidance for India business is that the sort of target that the board sets for you? Is that the guidance that you will give to they disclose to their investors because I feel there is a disconnect right? If the parent is giving a guidance for India business then that should be some disclosure where the India entity also for India based investors or at least some explanation that there is constant currency guidance or whether there is a currency guidance?

Anuj Jain: So basically what happens we have this system of having midterm plan three-year midterm plan which we internally have with the Kansai Paint Japan and those numbers have been given to them based on which they have given their guidance, but that was done some time back. After that, some price increase also happened

Jaykumar Doshi: That is helpful, but is it local currency or is it in the Japanese currency? Will there be currency adjustment or it will be local currency growth?

Anuj Jain: It will be in the Japanese currency.

Jaykumar Doshi: So there is another element of currency assumptions that are done by them based on the numbers which we are seeing from this?

Anuj Jain: I asked a very different question.

Jaykumar Doshi: Sorry I asked a very?

Anuj Jain: A very different question.

Jaykumar Doshi: Understood. The second question is in last year most of the year the industry is at least base quarter industrial and the mix was ballpark 60:40 and this time it is 55:45 so the basic sort of calculation tells me that decorative business growth would be somewhere in the range of 35% Y-o-Y and industrial would have grown at 60% Y-o-Y in this quarter? is that understanding correct?

Anuj Jain: No so basically 55:45 was the mix even in the last year 1% or 2% here or there. Generally we maintain that 55:45 and that is for the last year and the growth of like total growth is around 47%, industrial is slightly higher. Decorative also is more than 40%.

Jaykumar Doshi: Understood and helpful. My final question is on margins? In FY2020 in the first half before pandemic your overall EBITDA margin was in the range of 17% to 18% and right now with this quarter we are at 13% Based on your earlier commentary the gap between decorative and industrial is about 800 basis points so on the back of the calculations suggest that your decorative business EBITDA margin would not be more than 300 basis points lower than where you are in a normalized environment 10 years back so is that understanding correct that bulk of the margin improvement from here on that is the contingent on recovery in the industrial coatings and industrial coatings could be probably 800 to 900 basis points lower in terms of EBITDA margin versus what you are doing in FY2020? Is that the right math in understanding ballpark?

Anuj Jain: So I will not comment on the mathematics of what you have used but understanding is correct that may be in the decorative margin the recovery to the level of pre COVID level is good and industrial there is a gap so in the future the recovery is dependent on the industrial. In that understanding you are right.

Jaykumar Doshi: And reasonable to assume that decorative margins your performance may be better if not comparable than the peers and that business partly because we have leverage ANP lever more given that there was more room also to leverage that and then I look at your FY2022 ANP expenses is 3.6% of sales versus 5% in FY2020 so I am assuming that your decorative EBITDA margin performance will be better than the peer and better than industry?

Anuj Jain: Or closer but yes it is. Two things. One is this and the other is the mix. We believe our mix is better so yes. You are close to; it is right I do not know but yes somewhere you are right.

Jaykumar Doshi: That is very helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Keyur from ICICI Prudential Life Insurance. Please go ahead.

Keyur: Thanks for the opportunity again. Sir I just want to understand that in context of our guidance of growing paint which has at least in line of faster than the industry growth and same for the new businesses and investing in distribution or communication and influences so in that context how should we see a profitability because on the other side the expectation is that the RM prices are softening so to boost the growth in the balance between growth and margin with the falling prices should be improved on a trend basis improving margins from here and this is baring say the seasonality on Q-o-Q movements so I am saying as a trend line should we improve in the margins or as we are investing in future growth we should see some softness in the margin?

Anuj Jain: So I think this question I tried to answer earlier also so but we are working upon is that how do we make our margins better in the where the margins are lower. Wherever the inflation is there how do we take more price increase and also we are conscious of our strategy and therefore that when margins are improved some of the investments will happen so we are going to balance it out.

Keyur: Sure noted. Thanks a lot.

Moderator: Thank you very much. I now hand the conference over to Mr. Aniruddha Joshi for closing comments.

Aniruddha Joshi: Thanks Nirav. On behalf of ICICI Securities we thank the entire management team of Kansai Nerolac Paints for the wonderful discussion and now I hand over the call to the management for the closing comments. Thanks and over to you.

Anuj Jain: Thank you everyone for attending this call and it was very happy to discuss the matter with you and always your questions are most welcome and they give us some good insights so thank you so much and I want to comment again on Kansai Japan we are getting a very good support and help from them. We are working with the good collaboration and in terms of the technology, the new product trend, and the strategy a lot of work is happening together and I hope that we see a better and brighter future. Thank you all of you to attend this call.

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