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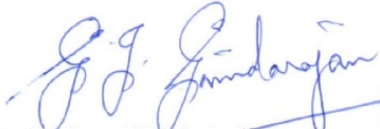
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Dear Sirs,

This refers to the intimation done by the Company on 22nd October, 2021 with regard to the conference call to be hosted by the Management of our Company to discuss Q2 FY 2021-22 Financial Results of the Company, and intimation done on 26th October, 2021 wherein an Investor Presentation was enclosed for the same.

The Conference call was hosted by the Management of our Company on Wednesday, 27th October, 2021 at 11 a.m. (IST) and we are enclosing herewith the transcript of the Conference call for your information and reference.

For **KANSAI NEROLAC PAINTS LIMITED**



**G. T. GOVINDARAJAN**  
**COMPANY SECRETARY**



“Kansai Nerolac Paints Limited  
Q2 FY2022 Earnings Conference Call”

**October 27, 2021**



**ANALYST: MR. ANIRUDDHA JOSHI - ICICI SECURITIES LIMITED**

**MANAGEMENT: MR. ANUJ JAIN - EXECUTIVE 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 Q2 FY2022 earnings conference call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Mr. Joshi!

**Aniruddha Joshi:** Thanks Bilal. On behalf of ICICI Securities, we welcome you all to Q2 FY2022 Results Conference Call of Kansai Nerolac Limited. The paint industry suffered during COVID and lockdown but the demand revived very sharply; however, the industry is now facing challenges of higher input prices. We believe the much awaited price hikes are happening in this quarter itself Q3 FY2022 itself and it will partially ease the pressure on profitability. Kansai Nerolac is likely to benefit from revival in decorative as well as strong recovery expected in industrial paints too. We continue to remain positive on the company. From the management side, we have with us today Mr. Anuj Jain - Executive 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 initial comments on the quarterly performance and then we will open the floor for question and answer session. Thanks and over to you Sir!

**Anuj Jain:** Thank you Aniruddha. Good morning everyone. Season’s greetings to all of you. Welcome you all to Kansai Nerolac investor call for Q2 FY2021-2022.

During second quarter we recorded the topline growth of 16.2%. In this quarter we witnessed significant hardening of raw material prices and the level of inflation what we have seen was like never seen before it was unprecedented. In view of this situation our approach was to strike a balance between topline and bottomline and we moved with that approach.

Giving you some highlights about decorative business because you know that we are equally divided in decorative and industrial side so in decorative if you look at value and volume growth they were in the similar range. Demand in the Q2 was you can say better in the urban towns but at half year level the urban towns and the regional markets are performing in the same way.

Some of the actions which we have been working upon in decorative and what results we have got emulsion did well and we have increased our salience in super premium category that was part of our strategy to improve the current mix. We expanded network last year and said the extension of the network did not happen because of the COVID situation but now

the workings have been normalized and we expanded our network and also putting focus and accordingly increasing the number of tinting machines in the market.

One of our key focus was in terms of introduction of differentiated products, differentiated from the offering what are there in the marketplace and we have introduced more products and expanded some of the new products which we introduced in the first quarter in more markets and therefore the contribution from the new products have increased.

One product Beauty Gold Washable which comes with the anti-bacterial property and also washability and our proposition was given as Saaf Bee and Safe Bee was accepted well and it is gaining traction consistently. We supported this product in last quarter with 360 degree campaign in many markets, there were a lot of touch points related to consumers which we have attended and also we have increased our presence on the digital platform.

Continuing our focus to introduce differentiated products we just launched a Mica Marble stretch machine, this product also has a very unique feature and one of the key benefit is that the outside buildings develop crack over a period of time and this product is kind of no crack. More products are in pipeline for introduction in coming quarters.

In new businesses where we were late entrant or we are progressing as per our plan. We have strengthened our portfolio and expanded distribution quarter-on-quarter we are able to do that. Some of the initiatives are related to digitization with dealers and painters our apps what we have introduced and we tried to build some customer friendly features in our apps those are gaining traction and we are able to bring more engagement from the dealers and painters as we are moving forward.

In terms of price increase, because the inflation has been quite high we have taken prices in line with the industry. In fact in the past quarters some of the pricing increase we have taken ahead of the industry also and we have our plans to take further increase so that we are able to mitigate the impact of inflation. Our focus and activity continue on paint emulsion within the paint emulsion is our focus, distribution expansion, introduction of new products and new segments where I just said that we made late entry but we are making progress consistently there. Based on the progress of various internal initiatives we remain optimistic and determined about our future prospects.

Coming to industrial, the demand outlook was getting better but unfortunately this shortages of semiconductors resulted in production drop mainly in the passenger vehicles segment, in two wheeler segment also there is some impact but not as high as it is but in two wheeler the demand remains subdued mainly the rural demand did not kicked off so there the growth is lower. Within the two wheeler scooter segment is better than the mobile and commercial vehicles and tractors are continuing to do well.

As a company again there is unprecedented inflation what we have seen but we are working very closely with our customers to arrive at win-win situation because there is definitely a pressure in terms of this shortages and therefore the production drop and customers are also facing the heat of that so we are working very closely with them to arrive at win-win situation. Partial price increase we have taken and we are very hopeful of getting further increases in industrial. In powder finish and performance coating business our salience has gone up because the growth rates are better in those businesses including powder and we are able to get higher price increase in these segments.

In industrial our focus continue to win new business based on the new technologies we are working very hard to build new technology which gives advantage to the customers in terms of efficiencies, productivity and therefore they get not only the product performance advantages but the other advantages also. Also the niche segment like coil coating, functional powders, high performance coating and also we are attempting to increase our share in some of the existing accounts so that has been some of the highlights in industrial area.

Coming to subsidiary, Marpol and Perma Marpol which was powder and Perma which is construction chemical, these are merged with KNP. Nerofix which is adhesive they recorded a good growth in Q2 and even in H1 the growth is getting continuous better traction. For international subsidiaries, Nepal did very well in terms of sales and profit despite, there was lockdown and despite there were heavy rains in Q2 but they still Nepal did well for us. Bangladesh the Q2 we had a strict lockdown and therefore the growth for the quarter is lower but on the H1 basis the growth levels are quite healthy. Sri Lanka had a very longer lockdown in the first half almost 80 days if you compare with the 40 days of last year and therefore there have been challenges in terms of Sri Lankan economy but we are getting a good growth obviously the base levels are low but we had made some certain changes in our strategy in Sri Lanka last year and we are getting traction on that particular project.

Some of the other highlights which I would like to share with all of you is that we are working and getting a better product mix in all our businesses. Material cost selection because of this inflation that is one initiative where whether it is something formulation or the other parts the purchase part, we are working on that and continuous overhead management judicious, overhead management is the focus where we are continuing with.

We are happy to share with you that we are a great place to work certified for 2021. It is heartening that we are getting it again and many digital initiatives we are taking across the organization for enhancing the efficiencies and process that is like building the infrastructure that supports the organization even in the future, which is very, very dynamic.

On the vaccination front more than 98% of our complete team have been vaccinated once and more than 70% have been vaccinated with both even the contractual leader and the staff the vaccination levels are quite high and the subsidies also the explanation is in line with what we had planned so based on these all operations are normal the market visits have started, everybody is traveling and operations are normal.

Coming to financials for the quarter we declared the revenue of Rs.1521 Crores a growth of 16.2% over the corresponding quarter of the previous year. EBITDA was at Rs.165 Crores, a degrowth of 37.3% and PAT there was a degrowth of 38.1% for Q2. For half year, the revenue growth is at 48.3% and EBITDA the growth of 3.3% and PAT the growth of 9% over the same period of the previous year.

Looking forward we feel the outlook is positive in terms of demand and because there is a good progress of vaccination, definitely we are seeing a reduced fear of third wave, monsoon with good monsoons we have seen and inflation will continue to remain high. In fact at one stage we thought that maybe after a particular period it might cool off but it remains high and the recent last two months the crude prices are going up, the forex is volatile, there are logistics challenge, there are port congestions so there are a lot of challenges even availability of raw material and therefore that is a challenge and inflation will continue to be high. As a company we are making all efforts for price increases and internal efficiencies to see to what extent we can offset the inflation. So these are some of the highlights which I wanted to share with you and with this now we invite the questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Thanks for the opportunity. My first question is on the price hike in Q3 so market leader has already taken around 9% price hike even the number two player has taken similar so have you also already taken or planning to take and if you could tell us from which date this will be accessible?

**Anuj Jain:** In my commentary I just mentioned that beginning the last quarter we had taken certain price hikes ahead of the industry and so some price increases already taken and we have our plan I think we will come to know. We have our plan based on that the business and the product mix we have our plans to take the price and in decorative at least that will ensure that we are able to mitigate the inflation to a large extent.

**Abneesh Roy:** The second bit is you mentioned you have already taken some hike in Q2 ahead of industry. I wanted to understand the pricing behavior by the top four players so in the past we have

taken the market leaders lead pricing action in most cases so in the last one year did that change?

**Anuj Jain:** In fact, not last year I think last two to three years, it changed because every company has some of their strength area whether it is a market or certain product category and obviously so based on that the companies are able to take the call and this is what we are doing for last two to three years and maybe the quantum differs but depending on the elasticity, depending on the acceptance of the market we have been making certain changes rather of waiting for somebody else.

**Abneesh Roy:** My second question is on the supply chain global bottleneck all paint companies have highlighted this also there is some shortage also of key raw material so if you could discuss what are your thoughts on shortage bottlenecks in Q3 is the worst behind and on the raw material scenario if you have any comment to make how you see the outlook going ahead?

**Anuj Jain:** Shortages are there but the good point is that we are still able to manage so far in fact these supplies have not been interrupted even that in case of industrial OEM where virtually we supply just in time so the challenges are that maybe sometime you have to keep the higher inventory of some of the critical raw materials or you may have to pay premium to keep these supplies intact so the lead time has increased logistically there are port congestions, so maybe earlier if every lead time was say 30 days maybe it is going to the 60 days so some of these challenges are there and we are able to manage these challenges so when I say that logistics are challenges it is not that there are shortages and therefore the demand or the supplies are impacted so we are able to provide uninterrupted supplies to our customers but the challenges are in terms of the cost and inventory.

**Abneesh Roy:** That is helpful. One last question so on chip shortage today's article in ET base Maruti has seen now significantly improvement month on month, so my question is would you also think that the car personal vehicle the worst is behind on chip shortage and in your tinting machine is the chip shortage impacting?

**Anuj Jain:** As of now our understanding is because there is a shortage of supplies in terms of chips and new capacities are coming up globally and new capacities take a time of around two years so difficult to say that whether the situation is under control. We will have to keep the finger crossed and see that whether it is consistently that the customers are able to manage the supplies but we feel that this problem is a little longer and it will take one year to completely come under control. Related to tinting machines as of now no impact but obviously these shortages is supposed to impact all these things but as of now there is no intent.

**Abneesh Roy:** So that is all from my side. Thanks and all the best.

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

**Prachi Kodikal:** My first question is relating to your cost front in your closing remarks you mentioned that there are a lot of internal factors looking to leverage in to mitigate the raw material cost increase if you could just give us some example or sense what are the low hanging fruit in terms of costs that we could benefit from that would be very helpful?

**Anuj Jain:** One is alternate raw materials because typically what happens is we have centralized the formulations and because this inflation period has started from last year and so there are the replenishment of the raw materials alternate raw material taking care of that the properties which we offer and then globally that leveraging Kansai, commercial Kansai or the global thing too so that is one area so cost efficiency is one area and the other area they said product mix because there are water based products or emulsion on the premium range whether the margins are better and even in the industrial side that the migration to the high-end products because there are a lot of low-end products the sale is high but the margins are very less so these are some of the low-hanging fruits, which we are taking care of any addition Prashant or Jason want to make?

**Prashant Pai:** Fine.

**Prachi Kodikal:** I have one more question in your recent annual report you mentioned that you are revisiting your decorative strategy and looking at new distribution channels etc., so could you elaborate a little bit on that as well, what are the key changes that we are looking at?

**Anuj Jain:** Some of the point I think I mentioned in my commentary also so one is that we are working on the differentiated products so today if you see in the market that we have a product called Beauty Gold Washable which is a differentiated offering and differentiating price that it is not competing in the market prices. There is a product called Suraksha Dust Repellent which we have introduced so all these products we are hitting because the market was moving on the price point so but we are trying to go away little from the price point in the market place. In terms of distribution that our strategies to further expand the distribution and within the distribution I think we are creating certain retail points that where the consumer will be offered experience and those retail points will be completely focused on the premium categories. Also we have selected like the market size is already expended earlier it was only paid but now we if you see the size with all the waterproofing and this Italian Wood Finishes and some of the other businesses so not that we are going to touch upon every business but whatever business we are seeing a synergy with our distribution those businesses we have entered and there we have completed our portfolio and then we have made our plan to progress on those portfolio in a period of three to five years' time.



**Prachi Kodikal:** But when you say new retail distribution points would they be selling just paints or all your other adjacent products as well is that the thought process?

**Anuj Jain:** Yes. So they will be selling paint, construction chemicals and the wood finishes.

**Prachi Kodikal:** Okay and have you already launched such retail touch points are there only in plan?

**Anuj Jain:** No we have already introduced and some of the retail points are up and we have our plan that within one year, how many retail points will reach to and then over a period of three years what actually we are going to achieve.

**Prachi Kodikal:** Okay got it. Those are my questions. I will get back within the queue that are anymore. Thank you so much.

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

**Keyur Haresh Pandya:** Thank you for the opportunity. Sir, question is on the industrial side of our business so on the growth front or any outlook on the growth as well as say improvement in profitability and if you can divide these two aspects into automobile and non-auto industry?

**Anuj Jain:** In automotive the growth system from the demand point of view it is good but the shortages and therefore the production drop that we still feel that that will impact the business and it will take some time to come back to the normalcy in the auto part. In the non-auto part I think the business is back to normal and some work which we have done in the past in terms of getting the new businesses and we have entered certain new segments and so the premium segments where our market share was relatively lower so there we had concentrated with some efforts for the dedicated team that has started working and in the non-auto business the growth is back to be normal and I think output is positive. Coming to the pricing of margins in auto obviously in the entire industry, the inflationary pressure is higher relatively and therefore the price increase are required and I would say that reasonably with the discussion in the current situation with the discussion with the customers we have been able to take the price increase and the discussion with the customer is continuing and as I said we are hopeful of getting more price increases. In the non-auto business we are going more aggressive in getting the price increases even if it affects to some extent because we have advantage of services and the quality and the technology I think that we are leveraging and going for higher price increase.

**Keyur Haresh Pandya:** One follow-up in auto any thought on say new market entrant we just want to understand how the market share has moved and customer concentration has changed over the last two to three years and what is the current level that is one and on the industrial side, there is a

lot of buzz about infra or capex revival, are we seeing any uptick related to that in our non-auto industrial business and so it is growing faster than the company level growth?

**Anuj Jain:** I think the first question was secondly was on auto?

**Keyur Haresh Pandya:** Within the auto, how has the market share progressed in the last two to three years as well as the client concentration as we have seen many new players entering and with change in technology going for PV, how are we up-to-date with that technology as well?

**Anuj Jain:** In auto in a sense based on our technology and services the last two to three years if you see that we have progressed and even the new businesses that strategic initiative we had and we have progressed consistently year-on-year basis in the auto. There are some new players which are seen in the two-wheeler industry but most of these new players are in the electrical vehicles category, you must have heard that a lot of players are announcing the introduction of EV in the two wheeler categories but mostly these players as of now they do not have their paint shop, they are getting it painted from outside and all these ancillaries that they are our customers and we are able to cater these customers through our ancillaries. In the non-auto where we are talking about the increase in capex, the uptick there are projects like metros and bridges we are seeing a lot of uptick there and we are participating. We have a technology available to our Japanese customers and we are definitely seeing the uptick in that and we have created some dedicated capacity also in our Sayakha plant for some of these businesses which are non-auto businesses like coil coating we have a dedicated capacity in our Sayakha plant even for general industrial and high performance coating we know that we expanded our capacity.

**Keyur Haresh Pandya:** Understood Sir. Just one clarification so when you see we have progressed well in auto I mean have we maintained market share or lost any or we have gained share any thought on market share?

**Anuj Jain:** We have gained market share.

**Keyur Haresh Pandya:** Okay understood Sir thanks a lot and all the very best.

**Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

**Percy Panthaki:** Sir can you give us some idea versus 12 months ago what is the total cumulative price hikes you have taken in deco and in industrial?

**Anuj Jain:** It is in line with the industry in decorative and industrial generally we do not comment on the quantum of the price increase because customer to customer it is different and we have contract with them.

**Percy Panthaki:** But for your overall business if you tell us the number it does not sort of give us customer wise data right?

**Anuj Jain:** So we would just like to comment on the decorative in line in the industry and industry as I said we have contracts and we do not generally comment on that.

**Percy Panthaki:** Sure and also because auto has now been weak for two three years, can you give us an idea of how much your deco paints contribution to the overall has gone up how much would it be let us say currently versus three years ago, how much would those numbers be Sir?

**Anuj Jain:** So decorative is about 55% of the total business.

**Percy Panthaki:** And how much it would have changed over the last three years?

**Anuj Jain:** 2%-3%.

**Percy Panthaki:** That is all from my side.

**Anuj Jain:** Between industrial I said like auto was weak but we made certain initiative in the non-auto business, in auto business that we have gone aggressive and coil coating, rebar and powder and a lot of new segments we have added so some of the weakness which was there the auto got compensated with the some other initiatives.

**Percy Panthaki:** That is all from my side.

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

**Avi Mehta:** I just wanted to clarify one thing one you said you have taken slightly ahead of the industry price increases in the last quarter, did I hear that correctly and if that is the case so if you could clarify that first?

**Anuj Jain:** Yes, we have taken certain pricing of certain products ahead of the industry.

**Avi Mehta:** This is in deco right Sir? You are talking about.

**Anuj Jain:** I am talking of decorative.

**Avi Mehta:** Sir is with this the recent price increase that has been announced by our peers do you think margins should be now coming back to the third quarter, fourth quarter levels in decorative at least?

**Anuj Jain:** Yes we can say more or less but the impact could be seen probably in the fourth quarter but more or less I think the margins would be taken care of it.

**Avi Mehta:** We do not need other rounds in deco now after this or no we would?

**Anuj Jain:** So we do not know because just to tell you very frankly that when we started this year we thought inflation is very high then at the end of the first quarter also we felt inflation is very high and second quarter also we felt that now it will stop at month on month basis it is rising and this time when you say unprecedented because it is not one side, one side is here chemical inflation, you see a kind of crude oil price rising, you see a rupee depreciated so everything is getting affected logistically now that the cost is going up so difficult to comment as of now assuming that the prices further does not go further up then probably it is the situation would be comfortable but if the price further goes up I think it may demand more.

**Avi Mehta:** Sir just on industrial side I mean you have clearly outlined that you will be more aggressive in price increases I just wanted to understand is it fair to argue that there also the expectation or the target would be to pass this on by fourth quarter or it might take longer Sir how should I look at that because that is a little more?

**Anuj Jain:** In industrial it is very difficult to pass on the complete because as I said that customers also in the current situation, they are facing a problem and we are truly a partner to our customer and in these difficult times that we have to have a discussion and arrive at the win-win situation so there it will be a combination of but in the given situation we have no choice to take price increase so it will be a combination of the price increase and the internal efficiencies and also giving a lot of value added services to our customer to see that how do we create this as a win-win situation.

**Avi Mehta:** Okay so it will be a mix of a pair of these two okay I understand Sir. Sir lastly on this entry of a new player I mean there is a lot of talk now that Grasim is kind of doing that how do you know kind of look at that and do you see that kind of weighing down on the margins of the industry structurally?

**Anuj Jain:** Difficult to say because that is little far as of now and generally logically if you see the paint the penetration is low 50% and in the past also we have seen that when more number of players participating even in the general markets we have seen, it always help the industry to grow the size and also the industry has taken the initiative in terms of expanding

the addressable market size by introducing this construction chemicals and some of the other categories so I think from that point of view it is good for the industry when more number of players participate and there is always a phenomena of formalization of the economy like from the unorganized it has been waiting to be organized and then that we have our distribution in place the product range, the service networks all these things are there so I think net-net in the future or the overall long term if you see it is good for the industry and it will only expand industry.

**Avi Mehta:** Perfect Sir that is all from my side thanks a lot. Thanks a lot.

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

**Tejash Shah:** Sir my question pertains to industries pricing power and auto discipline and reflectivity on the same so despite every player calling out, facing unprecedented inflation for last four months-five months we did not see that kind of urgency in terms of making intervention in terms of saving protecting margins and this did not happen in last month of the quarter it was actually happening every quarter, every month of the quarter so if you can say some thoughts on why industry waited and even now the announcement has been post Diwali hike so why there was no sense of urgency as we have seen it in past to protect the margins?

**Anuj Jain:** In fact when this year started and obviously we never estimated that there will be a COVID second wave and that will impact the market which has happened so that was also not expected then there were a lot of thing going on around that there is a fear about the third wave and the certainty was not there so I think in this period what you have seen was there was little unclarity in terms of how the demand will pick up, how the sentiments will come back because when all this happened there were fears in the mind that painters they have gone away from the cities, how soon they come back whether the customers will allow them to enter their home so already the sentiments were you can say weak or we were suspecting that all these things behaviors will change and at that moment of time if there was a high price increase would have further probably could have been further detrimental to the sentiments of the consumers. So there was little wait and watch and also this market from the distribution they were not ready to absorb this kind of high price increase because they were also worried and their operations were not normalized so to that extent I think this got impacted and now when the situation is normal and there is a reduced fear of this in the COVID and we are seeing that people are moving out and they are accepting the painting process and therefore probably it is the right time to go for that.

**Tejash Shah:** Sir does it mean that the price hike now the industry is announced can be absorbed without hurting demand much?

- Anuj Jain:** We will have to wait and watch because there is always the elasticity in the demand so I would not be able to comment but there is no scientific way to say that how much price increase we do. Let us accept it that probably this is the highest price increase case we should have seen so we do not have any experience that we have implemented this kind of price increase and what is the impact on the demand but that obviously in the economy range of product where the pricing is more elastic so there you have to wait and watch but in the higher end product of the mid-range product I do not foresee any impact on the demand but in the lower end category there may be some impact.
- Tejash Shah:** Second question pertains to rebates so what we picked up in our channel check that there were unprecedented rebates also given in the recent time from some participants so have you seen that also coming down in the recent months to fight inflation?
- Anuj Jain:** It will depend on the product mix because I think the market discounts have been increased in the lower end products so some of the other lower end products where there is a formalization happening so there the inputs have gone up but on the higher end product not much of changes. So we have not focused much on the lower end product because in this current situation it was important for us to strike a balance so to that an extent it depends that how the product mix will behave in the market and as we are increasing the pricing the lower end products also now if there is an impact on the demand there then maybe you know to some extent the rebates will get rationalized.
- Tejash Shah:** Okay and Sir on EVs do you supply to any EVs in India as of now?
- Anuj Jain:** Yes most of the players we are trying as I said that in EVs today as of now I think other than the existing players the new players they are getting it painted from outside ancillaries and all the ancillaries are our customers.
- Tejash Shah:** That is all from my side and Sir Happy Diwali to you and the team.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.
- Shirish Pardeshi:** Thank you. Thank you for the opportunity. The first one is that this industry I mean the paint industry is talking about there is conversion happening from unorganized players to the organized and we have been hearing this number is in the range of about 30%-35% generally I tend to believe that when I look at the industry when the inflation is high I think the French player will back out so is that a thing which you are seeing visible last two to three quarters and that is influencing the demand cycle for the organized player?

**Anuj Jain:** This is no change from the unorganized to organized you are right that it is generally a phenomena in any industry for that matter and the paint industry is there. Probably in the recent past maybe because of some aggression of the industry it has increased but I think unorganized players do have their strength because they know the geographies well and they understand the customers, they are able to service in that geographies better so impact on the margin but I think that they have their own strength and I do feel that with these some of the changes in certain they also would be able to make a comeback because generally it happens that they are able to reach out to the market especially in the interior markets or specific states they are able to reach out faster so maybe there are certain challenges in the recent past for them but I think they have also made changes in their strategy and they also had looked at their product mix and going forward I think that based on their strength they would still continue to do well formalization will happen but it is not that rapidly the market will change from unorganized to organized sector.

**Shirish Pardeshi:** Just one follow-up here since there is no syndicated data available I think you being a leader in the industry, could you comment something on the distribution structure I mean is that one of the things because what we notice from the market leader is that added a big number in terms of coverage so is that the satellite towns are showing the demand for the organized players or how one should look at this market, I mean is that the painter dealer network is really growing or is that the distribution is growing?

**Anuj Jain:** In distribution what happens is that we have two parts, paint industry one is the dealers who is the retail customer and we supply directly to the retailer and then he sells to the consumer and the other is the wholesaler or we can call him a distributor and we supply to him and then he supplies to one distributor one wholesaler supply to 50 to 60 or 50 to 200 subdealers so it is like that when you see the increase, one increase is a direct increase that how much customers I am adding or how many dealers I am adding direct extension so generally the speed of the market is 5% to 6% is the growth every year the industry happens and I know therefore you increase your distribution between 5% and 10% every year and then there is an indirect reach which generally many companies do not track so if you are adding the wholesaler and typically it happens in this particular time and there are continuous price increases are happening some of the distributors or wholesalers who have a good money capacity, they tend to buy more quantity during that particular period of time and therefore they are able to service the demand of the subdealers that for little longer time and in that particular period you see that your access to the subdealer network or the indirect network is increasing. So I think the comments that in the industry are that it is a direct and indirect reach but generally we track the direct reach but there is definitely an indirect reach also and there is extension happening there also.

**Shirish Pardeshi:** My last question is on if you comment some maybe spend a minute or two on the demand conditions in the month of October because what we gather from the trade is that demand is very strong maybe because of pent-up demand deferred which is happening now but then how you look at it purely from the decorative paints?

**Anuj Jain:** In our view there is no pent up demand now because if you see this year May was impacted only May and April was supposed to be a big month and April was completely open so if you compare it to last year where there was a big impact in the first quarter April, May, June all three months and there were a lot of pent up demand came later so going forward for the entire industry if you see the bases are higher and we can only say that demand outlook is positive but we just hope to see that because there have been lot of ups and downs in last two years now things will get rationalized normalized and you see generally the paint industry has been growing in line with GDP there is always a percentage so I think that will come back and things will be normal or you can say pre-COVID level if industry used to go at the double digit rate so that those kind of growth rates will normalize and according to these industries will show the performance.

**Shirish Pardeshi:** The reason Anuj I was asking is that the industry is saying that the consumer sentiments are weak and because of this COVID people have spent money on the healthcare and other things I suspect that if there is some trends if you can share whether there is a visible down trading I am not saying down trading 20% but if the demand is when the low end emulsion is higher than the luxury and premium?

**Anuj Jain:** No. In fact, there is no impact on the demand of the premium products also and in fact one of the consumer trend what we have seen is that during the lockdown people spend a lot of time at home and therefore in the home decor area they are more positive and their sentiments are better and they are ready to spend more in terms of as long as they are getting value for money or the benefits they are getting so there is no downgradation of that people are shifting from the premium product to the other person that is not there the demand of the premium products is good enough.

**Shirish Pardeshi:** Thank you Anuj and all the best.

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

**Keyur Haresh Pandya:** Sir just want to understand the decorative side you mentioned the industry demand momentum seems good now want to understand Kansai's context that logic says that you are number two and number three players on a low base should grow faster now is it happening and if not can we assign a reason why that is not happening or should we grow



faster than the market leader or the industry growth rate considering our ability as well as our size benefit?

**Anuj Jain:** I think partly I mentioned that depends on the timing so there were periods wherein the past when it happened but in today's context and specifically in our context if you look at it because we are equally divided between industrial and decorative and whenever there is a pressure we have to accept it honestly that whenever there is a pressure on the industrial, the pressure comes on decorative also and therefore in that situation the right approach is to strike a balance because there if you try to show a more aggression and as we said that in industrial when the inflation is high and the price increase comes with a lag effect and therefore the impact on the margins is quite high in that particular part so in this situation if we try to show that aggregation I think you feel we can know the situation so that is why the timing is not correct.

**Keyur Haresh Pandya:** Okay understood but as situation improves I mean when ability to spend it goes up as a company we should grow faster than the industry on a structural basis?

**Anuj Jain:** Certainly definitely that is our role and that is what we are determined to do.

**Keyur Haresh Pandya:** Okay Sir just one question on the distribution side you mentioned that 5% to 10% kind of addition happens at the industry level, what would be our current distribution and any average rate at which we are growing the distribution?

**Anuj Jain:** Around 28000 distribution we have and as I said that last year the in the expansion was very less but this year it is closer to 10%.

**Keyur Haresh Pandya:** That should continue in a medium term.

**Anuj Jain:** That is our objective.

**Keyur Haresh Pandya:** Okay understood Sir. Thanks a lot.

**Moderator:** Thank you very much. The next question is from the line of Amit Purohit from Elara Capital. Please go ahead.

**Amit Purohit:** Thank you for the opportunity Sir. Just one question on the growth rates for the industrial and decorative in this quarter if you could highlight that and second is on the capex these two things Sir?

**Anuj Jain:** Growth rates are quite similar, overall growth is 16.2% and growth rate in decorative and industrial are similar and our regular capex continues. What is the figure Prashant, around 90 Crores is the regular capex and there is no cut on that.

**Amit Purohit:** Sir when was the price hike taken in the decorative space because if we take I mean what was it in the mid of the quarter because then probably the volume growth and value growth you said it is same right that is what I heard?

**Anuj Jain:** The price increases were quite staggered so almost every month or one and a half month, there was some amount of price increase were happening and it was quite staggered.

**Amit Purohit:** Okay so you would have also taken around 16%-17% from April to now is that a fair assumption?

**Anuj Jain:** Not that high. The industry price increase about 6% to 7% in that particular range not that high.

**Amit Purohit:** But the industry has taken another announced the price increase now?

**Anuj Jain:** That is now we are talking April to September.

**Amit Purohit:** After this announcement have you also taken some price increases?

**Anuj Jain:** I think I mentioned in one of the questions so we have our plans and I think we are open to that, we have our plans on that.

**Amit Purohit:** Sure so from till September quarter the price increases 6%-7%?

**Anuj Jain:** Yes for decorative.

**Amit Purohit:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

**Kunal Bhatia:** Thanks for the opportunity. You did mention that Q3 you would like to on the margin front you would like to normalize a bit on the EBITDA margins and or for the same you mentioned the mix of product mix, secondly also in terms of a change in formulation and thirdly some bit of price increases what you want to take so if I look at say in the Q3 of last year the margins were still on a higher base at about 19.7% kind of EBIDTDA margins so

what do you envisage here? What would be a normalized kind of EBITDA margins which you are targeting at?

**Anuj Jain:** See I think the impact of all these things what you are talking about would be seen in the fourth quarter because the price increase because October is a big month and therefore all the impact you will be able to see in the fourth quarter, the impact in this third quarter would be very, very low so for the quarterly perspective difficult to say what you are saying but I think impact could be seen in Q4.

**Kunal Bhatia:** The important question here is what according to you is the EBITDA margin target you are looking at a normalized kind of EBITDA margins?

**Prashant Pai:** Difficult to make any statement right now because it will be the forward-looking statement but still we are of course difficult to maintain last year's high EBITDA margins maybe slightly lower than that we can target.

**Kunal Bhatia:** So what range if you could?

**Anuj Jain:** We would not like to comment on the numbers or range.

**Kunal Bhatia:** Sir and secondly in terms of auto you did mention that we gained the market share so what would be our current market share in case of auto and also would like to just get some sense on how big is because you have mentioned some comments this time specifically about two wheelers and tractors so just wanted to get some sense on how big are these two segments for us?

**Anuj Jain:** Our market share in auto is close to 60% and we are very strong player in the passenger vehicles, two-wheelers and if you see tractors and commercial where there is the market share is further higher so I think in most of these industries passenger vehicle commercial vehicles, tractors and two-wheeler we are very, very strong player.

**Kunal Bhatia:** Sir what would be the current size of the auto paint industry?

**Anuj Jain:** Size you can say that it is the industrial overall is 25% to 30% of the total market size that is the industry size.

**Kunal Bhatia:** Thank you.

**Moderator:** Thank you. The next question is from the line of Parag Chavan from UTI AMC Limited. Please go ahead.

**Parag Chavan:** Thank you for the opportunity. I wanted to understand on the industrial side so actually my perception was earlier that in industrial business whenever basically the raw material goes up it is easier to actually pass on the price hike also on the flip side when actually the raw material prices cool off even that benefit also has to be passed on quickly to the consumer. Now is that perception wrong or currently as you mentioned that some of these higher price hike on the raw material side when you were not able to pass on to the consumer, is a one-off this time around?

**Anuj Jain:** I would have been happy if your perception was right. Generally what happens is that there is a lag and this situation is different because generally what happens is that it is very difficult to go to this auto customers or OEMs on a regular basis to demand for the price increase. Now in the situation like this where there have been a lot of uncertainty and it was very difficult to project that month basis how the inflation will go up so typically traditionally what happens is that you wait and see that where exactly the inflation got stabilized and once you have that understanding then you work out and then have a discussion with the customers and in the OEM obviously along with the price increase you have to work with them in terms of lot of other initiatives as I said that you have to create a win-win situation so that is what happens. This situation is little different because every month there has been inflation and in industry definitely it is not possible which can happen in consumer business industry does not happen that every month you go and ask for the price increase so first you have to wait and see that what price you require and unfortunately in this situation if you had asked for a particular price increase and one month subsequently getting the price increase the figure itself has been changing so to that extent the lag has always been there and this time it is a little more and the discussions are happening and people will have to work out because we have to understand the customer situation also and therefore we have to fall in line with each other's expectations and see that how do we create win-win.

**Parag Chavan:** That is clarified. Thank you.

**Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

**Ranjit Cirumalla:** Thank you for this opportunity. In one of the earlier questions you have kind of an indicated that this is for the industry and not for Kansai that the recent price that we have seen is kind of an offset the raw material inflation that we have seen but the way I say that post 2Q and now in the month of towards the end of September and October we have seen a further price increases in the raw material inflation has only got intensified if you look at this month of September and October so how should one view that the price act that we have taken is likely to offset the RM inflation?

**Anuj Jain:** Difficult to say because as of now the trend is further going up but I think to a large extent it would be done and we have to wait and watch for the demand that after the price increase how the demand is impacting or the response and based on that idea for the course correction would be decided.

**Ranjit Cirumalla:** The question was that the price increases that the industry has taken in which it is going to neutralize the RM inflation for the 2Q or it also takes into consideration the inflation that we have seen in the month of October?

**Prashant Pai:** As far as the decorative price increase what we have projected what built on whatever people are now asking for should cover at least up to Q2.

**Ranjit Cirumalla:** Thank you.

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

**Varun:** Thanks for the opportunity. I had two questions from my side so first on what would be the differentiated product offering as you mentioned on the call like we have now become relatively more aggressive in terms of launching new products and a lot of products are even in pipeline so just wanted to know if you can share some objective guidance in terms of how you are aiming to kind of grow this category? So any numbers in terms of revenue contribution currently and how you want to drive this category going forward in terms of I mean are you looking at just number of product launches or even from revenue point of view?

**Anuj Jain:** This part is quite focused on that understanding the need gaps of the consumer and then plugging it with the product where the offering and the propositions can be very different. We have already placed four to five products in the range which are quite differentiated. We have our internal plans to increase the volume and value of this business significantly I would not like to talk about the numbers here because that is one way to really depart from the competition in the marketplace so I think our focus is on that and as I said that there are multiple products in pipeline and as we go along we see that more and more functional and this feature oriented products picture-led products that will be coming to the market.

**Varun:** My second question is on the distribution expansion so as you likely mentioned that 5% to 10% kind of addition that or more than 10% kind of addition that you kind of or we kind of aim for but how are you thinking about the reasons where you want to focus more so I mean the more of the growth you think is going to come from rural distribution expansion from urban any color on that?

**Anuj Jain:** Traditionally, if you see that we are a more stronger player in the upcountry market and relatively weaker in the urban towns so our focus is both sides so one side that is strengthening the market where we are already strong and wherever we are weak, there we are building up. I think it is the objectives are different in both the markets but the focus would remain in both the market.

**Varun:** That is very important. Thank you very much.

**Moderator:** Thank you very much that was the last question for today I would now like to hand the conference over to Mr. Aniruddha Joshi for closing comments. Over to you Sir!

**Aniruddha Joshi:** Thanks Bilal. On behalf of ICICI Securities we would like to thank the management of Kansai Nerolac, Mr. Anuj Jain, Mr. Prashant Pai as well as Mr. Jason Gonsalves as well as all the participants too. It was really interesting discussion and many thanks to the management for sharing valuable inputs as well as resolving queries of investors and analysts. Wish you all Happy Diwali and now hand over the call to the management for closing comments. Thanks and over to you Sir.

**Anuj Jain:** Thank you so much. Thank you all the participants for patient hearing and all the questions. Your questions always enlighten our understanding also. Thank you so much for that and the best wishes for the season. Diwali is coming ahead and fortunately the country it seems to be on track in terms of vaccination and the safety part is taken care. Hopefully this challenging situation which we have seen last year will go away and we will see a bright times coming ahead. Wish you all the very best and my best regards to you and your family and your near and dear ones. Thank you so much.

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